

OLD REPUBLIC INTERNATIONAL CORP
Form 10-Q
October 31, 2014

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: September 30, 2014 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
September 30, 2014

Common Stock / \$1 par value

260,889,104

There are 48 pages in this report

OLD REPUBLIC INTERNATIONAL CORPORATION

Report on Form 10-Q / September 30, 2014

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

	(Unaudited) September 30, 2014	December 31, 2013
Assets		
Investments:		
Available for sale:		
Fixed maturity securities, at fair value (amortized cost: \$7,980.7 and \$8,477.3)	\$8,286.8	\$8,712.3
Equity securities, at fair value (cost: \$1,229.1 and \$632.0)	1,437.3	1,004.2
Short-term investments (at fair value which approximates cost)	1,011.0	1,124.8
Miscellaneous investments	24.3	21.6
Total available for sale	10,759.5	10,863.1
Trading equity portfolio at fair value (cost: \$29.4 and \$-)	28.2	—
Other investments	5.9	5.3
Total investments	10,793.7	10,868.5
Other Assets:		
Cash	219.9	153.3
Securities and indebtedness of related parties	22.2	18.0
Accrued investment income	90.8	87.2
Accounts and notes receivable	1,389.9	1,190.5
Federal income tax recoverable: Current	32.1	114.7
Deferred	50.7	48.4
Prepaid federal income taxes	38.7	—
Reinsurance balances and funds held	162.0	189.2
Reinsurance recoverable: Paid losses	64.9	64.9
Policy and claim reserves	3,421.2	3,150.8
Deferred policy acquisition costs	227.5	192.6
Sundry assets	472.6	455.7
Total Other Assets	6,193.1	5,665.9
Total Assets	\$16,986.8	\$16,534.4
Liabilities, Preferred Stock, and Common Shareholders' Equity		
Liabilities:		
Losses, claims, and settlement expenses	\$9,034.9	\$9,433.5
Unearned premiums	1,741.4	1,487.8
Other policyholders' benefits and funds	201.3	207.8
Total policy liabilities and accruals	10,977.7	11,129.2
Commissions, expenses, fees, and taxes	365.6	409.8
Reinsurance balances and funds	542.1	441.9
Debt	965.0	569.2
Sundry liabilities	213.2	209.0
Commitments and contingent liabilities		
Total Liabilities	13,063.8	12,759.4
Preferred Stock (1)	—	—
Common Shareholders' Equity:		
Common stock (1)	260.8	260.4
Additional paid-in capital	679.7	673.9
Retained earnings	2,690.5	2,485.3

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Accumulated other comprehensive income	310.7	378.2
Unallocated ESSOP shares (at cost)	(18.9) (23.0
Total Common Shareholders' Equity	3,922.9	3,775.0
Total Liabilities, Preferred Stock and Common Shareholders' Equity	\$16,986.8	\$16,534.4

(1) At September 30, 2014 and December 31, 2013, 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 stock, \$1.00 par value, authorized, of which 260,889,104 and 260,462,217 were issued as of September 30, 2014 and December 31, 2013, respectively. At September 30, 2014 and December 31, 2013, 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.

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

	Quarters Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Revenues:				
Net premiums earned	\$1,159.0	\$1,163.4	\$3,291.7	\$3,323.6
Title, escrow, and other fees	97.5	108.8	270.2	336.5
Total premiums and fees	1,256.6	1,272.2	3,561.9	3,660.1
Net investment income	86.1	78.9	254.3	237.2
Other income	26.7	23.3	76.4	67.0
Total operating revenues	1,369.4	1,374.6	3,892.7	3,964.4
Realized investment gains (losses):				
From sales and fair value adjustments	21.5	4.8	262.8	146.6
From impairments	—	—	—	—
Total realized investment gains (losses)	21.5	4.8	262.8	146.6
Total revenues	1,391.0	1,379.5	4,155.6	4,111.0
Benefits, Claims and Expenses:				
Benefits, claims and settlement expenses	643.0	564.8	1,850.9	1,665.4
Dividends to policyholders	3.4	3.3	10.8	11.7
Underwriting, acquisition, and other expenses	617.9	656.0	1,759.3	1,886.3
Interest and other charges	5.1	5.4	16.4	16.8
Total expenses	1,269.6	1,229.7	3,637.5	3,580.3
Income before income taxes (credits)	121.4	149.7	518.0	530.6
Income Taxes (Credits):				
Current	6.6	46.0	144.3	75.1
Deferred	28.8	.8	27.2	102.3
Total	35.5	46.8	171.6	177.5
Net Income	\$85.8	\$102.9	\$346.4	\$353.1
Net Income Per Share:				
Basic	\$.33	\$.40	\$1.34	\$1.37
Diluted	\$.30	\$.36	\$1.21	\$1.24
Average shares outstanding:				
Basic	258,607,162	257,098,894	258,423,448	256,906,821
Diluted	295,049,613	293,444,269	294,989,032	292,985,034
Dividends Per Common Share:				
Cash	\$.1825	\$.1800	\$.5475	\$.5400

See accompanying Notes to Consolidated Financial Statements.

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

	Quarters Ended		Nine Months Ended		
	September 30,		September 30,		
	2014	2013	2014	2013	
Net Income As Reported	\$85.8	\$102.9	\$346.4	\$353.1	
Other comprehensive income (loss):					
Unrealized gains (losses) on securities:					
Unrealized gains (losses) on securities before reclassifications	(81.5) 25.9	169.8	(95.4)
Amounts reclassified as realized investment gains in the statements of income	(21.5) (4.8) (262.8) (146.6)
Pretax unrealized gains (losses) on securities	(103.1) 21.0	(92.9) (242.0)
Deferred income taxes (credits)	(36.0) 7.3	(32.6) (84.4)
Net unrealized gains (losses) on securities, net of tax	(67.1) 13.6	(60.3) (157.6)
Defined benefit pension plans:					
Net pension adjustment before reclassifications	—	79.3	—	79.3	
Amounts reclassified as underwriting, acquisition, and other expenses in the statements of income	(.4	) 3.5	(1.4	) 9.4
Net adjustment related to defined benefit pension plans	(.4	) 82.9	(1.4	) 88.8
Deferred income taxes (credits)	(.1	) 29.0	(.5	) 31.0
Net adjustment related to defined benefit pension plans, net of tax	(.3	) 53.9	(.9	) 57.7
Foreign currency translation and other adjustments	(5.1) 2.4	(6.1) (5.2)
Net adjustments	(72.5) 70.0	(67.4) (105.1)
Comprehensive Income (Loss)	\$13.3	\$172.9	\$278.9	\$247.9	

See accompanying Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$346.4	\$353.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred policy acquisition costs	(35.0)	(24.0)
Premiums and other receivables	(199.7)	(94.9)
Unpaid claims and related items	(541.5)	64.0
Unearned premiums and other policyholders' liabilities	120.5	101.8
Income taxes	109.7	105.8
Prepaid federal income taxes	(38.7)	—
Reinsurance balances and funds	127.4	63.6
Realized investment (gains) losses	(262.8)	(146.6)
Accounts payable, accrued expenses and other	3.7	36.1
Total	(370.0)	459.0
Cash flows from investing activities:		
Fixed maturity securities:		
Maturities and early calls	624.4	958.2
Sales	806.1	159.7
Sales of:		
Equity securities	557.0	172.5
Other - net	11.5	26.3
Purchases of:		
Fixed maturity securities	(943.3)	(1,494.1)
Equity securities	(944.4)	(169.6)
Other - net	(36.4)	(28.1)
Purchase of a business	(2.8)	(5.1)
Net decrease (increase) in short-term investments	113.5	115.0
Other - net	(2.2)	(.4)
Total	183.3	(265.5)
Cash flows from financing activities:		
Issuance of debentures and notes	395.2	—
Issuance of common shares	5.0	6.1
Redemption of debentures and notes	(4.2)	(3.7)
Dividends on common shares	(141.2)	(138.4)
Other - net	(1.5)	(2.3)
Total	253.2	(138.4)
Increase (decrease) in cash	66.5	55.0
Cash, beginning of period	153.3	101.2
Cash, end of period	\$219.9	\$156.3

Supplemental cash flow information:

Cash paid (received) during the period for: Interest	\$21.0	\$21.1
Income taxes	\$61.9	\$72.8

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 2013 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.

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 quarterly and year-to-date periods. Diluted earnings per share are similarly calculated with the inclusion of dilutive common stock equivalents. The following table provides a reconciliation of net income and the number of shares used in basic and diluted earnings per share calculations.

	Quarters Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Numerator:				
Net income	\$85.8	\$102.9	\$346.4	\$353.1
Numerator for basic earnings per share - income available to common stockholders	85.8	102.9	346.4	353.1
Adjustment for interest expense incurred on assumed conversion of convertible notes	3.6	3.6	10.9	10.9
Numerator for diluted earnings per share - income available to common stockholders after assumed conversion of convertible notes	\$89.5	\$106.5	\$357.3	\$364.0
Denominator:				
Denominator for basic earnings per share - weighted-average shares (a)	258,607,162	257,098,894	258,423,448	256,906,821
Effect of dilutive securities - stock based compensation awards	919,271	882,475	1,059,216	628,018
Effect of dilutive securities - convertible senior notes	35,523,180	35,462,900	35,506,368	35,450,195
Denominator for diluted earnings per share - adjusted weighted-average shares				

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and assumed conversion of convertible notes (a)	295,049,613	293,444,269	294,989,032	292,985,034
Earnings per share: Basic	\$.33	\$.40	\$1.34	\$1.37
Diluted	\$.30	\$.36	\$1.21	\$1.24
Anti-dilutive common stock equivalents excluded from earning per share computations:				
Stock based compensation awards	6,714,184	7,577,543	6,714,184	8,301,521
Convertible senior notes	—	—	—	—
Total	6,714,184	7,577,543	6,714,184	8,301,521

(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 September 30, 2014 and December 31, 2013, substantially all the Company's invested assets were classified as "available for sale."

Fixed maturity securities and other preferred and common stocks (equity securities) classified as "available for sale" are reported at fair value with changes in such values, net of deferred income taxes, reflected directly in shareholders' equity. Equity securities classified as "trading" are also recorded at fair value, however, changes in the fair value of these securities are recognized in earnings as a component of realized investment gains (losses). 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 available for sale 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 quarters and nine months ended September 30, 2014 and 2013.

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:				
September 30, 2014:				
U.S. & Canadian Governments	\$1,056.8	\$30.0	\$3.7	\$1,083.1
Tax-exempt	60.2	1.9	.2	61.9
Corporate	6,863.7	299.7	21.6	7,141.7
	\$7,980.7	\$331.7	\$25.7	\$8,286.8
December 31, 2013:				
U.S. & Canadian Governments	\$1,133.0	\$36.7	\$8.7	\$1,161.1
Tax-exempt	168.1	3.7	.5	171.3
Corporate	7,176.0	268.1	64.3	7,379.8
	\$8,477.3	\$308.7	\$73.6	\$8,712.3

	Amortized Cost	Estimated Fair Value
Fixed Maturity Securities Stratified by Contractual Maturity at September 30, 2014:		
Due in one year or less	\$582.6	\$589.6
Due after one year through five years	3,559.7	3,755.9
Due after five years through ten years	3,638.7	3,729.7
Due after ten years	199.6	211.4
	\$7,980.7	\$8,286.8

A summary of the Company's available for sale equity securities follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity Securities:				
September 30, 2014	\$1,229.1	\$212.4	\$4.2	\$1,437.3
December 31, 2013	\$632.0	\$372.7	\$5	\$1,004.2

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
September 30, 2014:						
Available for Sale:						
Fixed Maturity Securities:						
U.S. & Canadian Governments	\$87.9	\$3	\$132.6	\$3.3	\$220.6	\$3.7
Tax-exempt	3.2	—	6.7	.1	9.9	.2
Corporate	630.6	8.2	577.2	13.4	1,207.8	21.6
Subtotal	721.8	8.7	716.6	16.9	1,438.5	25.7
Equity Securities	177.2	4.2	—	—	177.2	4.2
Total	\$899.1	\$12.9	\$716.6	\$16.9	\$1,615.7	\$29.9
December 31, 2013:						
Available for Sale:						
Fixed Maturity Securities:						
U.S. & Canadian Governments	\$301.7	\$8.7	\$—	\$—	\$301.7	\$8.7
Tax-exempt	10.0	.5	—	—	10.0	.5
Corporate	2,312.2	60.2	47.7	4.1	2,360.0	64.3
Subtotal	2,624.0	69.4	47.7	4.1	2,671.8	73.6
Equity Securities	31.0	.5	—	—	31.0	.5
Total	\$2,655.0	\$70.0	\$47.7	\$4.1	\$2,702.8	\$74.2

At September 30, 2014, the Company held 314 fixed maturity and 13 equity securities in an unrealized loss position, representing 18.5% as to fixed maturities and 13.7% as to equity securities of the total number of such issues it held. At December 31, 2013, the Company held 558 fixed maturity and 5 equity securities in an unrealized loss position, representing 30.8% as to fixed maturities and 7.2% as to equity securities of the total number of such issues it held. Of the securities in an unrealized loss position, 132 and 10 fixed maturity securities and no equity securities, had been in a continuous unrealized loss position for more than 12 months as of September 30, 2014 and December 31, 2013, respectively. The unrealized losses on these securities are primarily attributable to an increase in the interest rate environment. 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 estimated price that is likely to 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 other sources including 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 equity securities. There were no significant changes in the fair value of assets measured with the use of significant unobservable inputs as of September 30, 2014 and December 31, 2013.

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

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
As of September 30, 2014:				
Available for sale:				
Fixed maturity securities:				
U.S. & Canadian Governments	\$448.1	\$634.9	\$—	\$1,083.1
Tax-exempt	—	61.9	—	61.9
Corporate	—	7,131.2	10.5	7,141.7
Equity securities	1,435.4	—	1.8	1,437.3
Short-term investments	1,007.1	—	3.8	1,011.0
Trading equity portfolio	\$28.2	\$—	\$—	\$28.2

As of December 31, 2013:				
Available for sale:				
Fixed maturity securities:				
U.S. & Canadian Governments	\$478.9	\$682.2	\$—	\$1,161.1
Tax-exempt	—	171.3	—	171.3
Corporate	—	7,369.3	10.5	7,379.8
Equity securities	1,003.4	—	.7	1,004.2
Short-term investments	\$1,120.5	\$—	\$4.2	\$1,124.8

There were no transfers between Levels 1, 2 or 3 during the quarter ended September 30, 2014.

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, write-downs of securities, or changes in the fair value of trading 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 on available for sale securities, net of any deferred income taxes, are recorded directly as a component of accumulated other comprehensive income in shareholders' equity. At September 30, 2014, 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.

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	Quarters Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Investment income from:				
Fixed maturity securities	\$73.1	\$74.1	\$222.8	\$224.7
Equity securities	12.8	5.3	31.4	13.6
Short-term investments	.1	.2	.6	.8
Other sources	.8	.6	2.2	2.0
Gross investment income	87.0	80.3	257.1	241.2
Investment expenses (a)	.8	1.3	2.7	4.0
Net investment income	\$86.1	\$78.9	\$254.3	\$237.2
Realized gains (losses) on:				
Fixed maturity securities:				
Gains	\$3.7	\$4.5	\$25.0	\$8.5
Losses	—	(8.1)	(.1)	(8.2)
Net	3.7	(3.5)	24.9	.2
Equity securities & other long-term investments:				
Equity securities:				
Available for sale	18.6	8.4	237.7	142.5
Trading securities:				
Sales	1.0	—	1.4	—
Changes in fair value	(.8)	—	(1.1)	—
Other long-term investments	(.9)	—	(.1)	3.7
Total realized gains (losses)	21.5	4.8	262.8	146.6
Income taxes (credits)	7.5	1.7	91.9	51.3
Net realized gains (losses)	\$14.0	\$3.1	\$170.8	\$95.2
Changes in unrealized investment gains (losses) on:				
Fixed maturity securities	\$(67.8)	\$(6.7)	\$70.2	\$(271.6)
Less: Deferred income taxes (credits)	(23.6)	(2.3)	24.5	(94.7)
	(44.1)	(4.4)	45.7	(176.8)
Equity securities & other long-term investments	(35.2)	27.8	(163.2)	29.6
Less: Deferred income taxes (credits)	(12.3)	9.7	(57.1)	10.3
	(22.9)	18.0	(106.1)	19.2
Net changes in unrealized investment gains (losses)	\$(67.1)	\$13.6	\$(60.3)	\$(157.6)

Investment expenses consist of personnel costs and investment management and custody service fees, as well as (a) interest incurred on funds held of \$.1 and \$.5 for the quarters ended September 30, 2014 and 2013, and \$.3 and \$1.6 for the nine months ended September 30, 2014 and 2013 respectively.

4. Pension Plans:

Prior to December 31, 2013, the Company had two separate pension plans covering a portion of its work force. The plans were the Old Republic International Salaried Employees Retirement Plan (the Old Republic Plan) and the PMA Capital Corporation Pension Plan (the PMA Plan). Effective December 31, 2013, the PMA Plan was merged into the

Old Republic Plan. The PMA plan was frozen as of December 31, 2005. The benefit levels in the Old Republic Plan were similarly frozen as of December 31, 2013. Under the terms of the freeze, the plans remain closed to new participants and eligible employees retain all of the vested rights as of the effective date of the freeze, but additional benefits do not accrue thereafter. Plan assets are comprised principally of bonds, common stocks and short-term investments. Cash contributions of \$5.0 and \$9.2 were made to the pension plan in the third quarter and first nine months of 2014, respectively, and no additional cash contributions are expected to be made in the remaining portion of calendar year 2014.

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 & accident 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. 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 Old Republic's insurance industry segments to consolidated totals are shown in the following table.

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	Quarters Ended		Nine Months Ended	
	September 30,	2013	September 30,	2013
	2014		2014	2013
General Insurance:				
Including CCI run-off business:				
Net premiums earned	\$713.7	\$652.5	\$2,056.8	\$1,882.0
Net investment income and other income	96.8	84.2	281.0	249.8
Total revenues before realized gains or losses	\$810.6	\$736.7	\$2,337.8	\$2,131.8
Income (loss) before taxes (credits) and realized investment gains or losses (a)	\$48.5	\$66.6	\$101.5	\$198.5
Income tax expense (credits) on above	\$14.2	\$18.3	\$29.9	\$61.5
All CCI run-off business:				
Net premiums earned	\$7.2	\$7.5	\$21.9	\$22.5
Net investment income and other income	.1	.1	.4	.2
Total revenues before realized gains or losses	\$7.3	\$7.6	\$22.3	\$22.8
Income (loss) before taxes (credits) and realized investment gains or losses	\$(12.2)	\$(3.6)	\$(100.9)	\$(10.9)
Income tax expense (credits) on above	\$(4.2)	\$(1.2)	\$(35.3)	\$(3.8)
Total excluding all CCI run-off business:				
Net premiums earned	\$706.5	\$644.9	\$2,034.8	\$1,859.4
Net investment income and other income	96.7	84.1	280.5	249.5
Total revenues before realized gains or losses	\$803.2	\$729.0	\$2,315.4	\$2,108.9
Income (loss) before taxes (credits) and realized investment gains or losses (a)	\$60.8	\$70.2	\$202.4	\$209.4
Income tax expense (credits) on above	\$18.5	\$19.6	\$65.2	\$65.3
Title Insurance:				
Net premiums earned	\$372.9	\$428.3	\$1,015.1	\$1,176.6
Title, escrow and other fees	97.5	108.8	270.2	336.5
Sub-total	470.4	537.2	1,285.3	1,513.1
Net investment income and other income	8.2	7.3	24.4	21.7
Total revenues before realized gains or losses	\$478.7	\$544.5	\$1,309.8	\$1,534.9
Income (loss) before taxes (credits) and realized investment gains or losses (a)	\$28.2	\$36.6	\$59.0	\$98.6
Income tax expense (credits) on above	\$10.0	\$12.7	\$21.3	\$35.0
RFIG Run-off Business:				
Excluding CCI run-off business:				
Net premiums earned	\$57.6	\$68.9	\$173.4	\$220.5
Net investment income and other income	6.4	9.3	20.6	27.8
Total revenues before realized gains or losses	\$64.0	\$78.3	\$194.1	\$248.4
Income (loss) before taxes (credits) and realized investment gains or losses	\$22.6	\$40.7	\$96.6	\$83.2
Income tax expense (credits) on above	\$7.9	\$14.2	\$33.8	\$29.1
All CCI run-off business:				
Net premiums earned	\$7.2	\$7.5	\$21.9	\$22.5

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Net investment income and other income	.1	.1	.4	.2
Total revenues before realized gains or losses	\$7.3	\$7.6	\$22.3	\$22.8
Income (loss) before taxes (credits) and realized investment gains or losses	\$(12.2	) \$(3.6	) \$(100.9	) \$(10.9
Income tax expense (credits) on above	\$(4.2	) \$(1.2	) \$(35.3	) \$(3.8
Total RFIG run-off MI and CCI business:				
Net premiums earned	\$64.8	\$76.5	\$195.4	\$243.1
Net investment income and other income	6.5	9.4	21.1	28.1
Total revenues before realized gains or losses	\$71.4	\$86.0	\$216.5	\$271.3
Income (loss) before taxes (credits) and realized investment gains or losses	\$10.4	\$37.0	\$(4.2) \$72.2
Income tax expense (credits) on above	\$3.6	\$12.9	\$(1.4) \$25.3

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	Quarters Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Consolidated Revenues:				
Total revenues of above Company segments	\$1,353.4	\$1,359.6	\$3,841.7	\$3,915.1
Other sources (b)	31.1	29.5	96.7	92.8
Consolidated net realized investment gains (losses)	21.5	4.8	262.8	146.6
Consolidation elimination adjustments	(15.1	) (14.6	) (45.7	) (43.5
Consolidated revenues	\$1,391.0	\$1,379.5	\$4,155.6	\$4,111.0
Consolidated Income Before Taxes (Credits):				
Total income before income taxes (credits) and realized investment gains or losses of above Company segments	\$99.4	\$144.0	\$257.1	\$380.3
Other sources - net (b)	.3	.8	(1.9	) 3.6
Consolidated net realized investment gains (losses)	21.5	4.8	262.8	146.6
Consolidated income before income taxes (credits)	\$121.4	\$149.7	\$518.0	\$530.6
Consolidated Income Tax Expense (Credits):				
Total income tax expense (credits) for above Company segments	\$32.1	\$45.4	\$85.1	\$125.7
Other sources - net (b)	(4.1	) (.2	) (5.5	) .4
Income tax expense (credits) on consolidated net realized investment gains (losses)	7.5	1.7	91.9	51.3
Consolidated income tax expense (credits)	\$35.5	\$46.8	\$171.6	\$177.5
			September 30,	December 31,
			2014	2013
Consolidated Assets:				
General Insurance			\$14,100.5	\$13,276.6
Title Insurance			1,188.9	1,185.5
RFIG Run-off Business			1,174.9	1,822.3
Total assets for the above company segments			16,464.5	16,284.5
Other assets (b)			1,009.3	549.8
Consolidation elimination adjustments			(487.0	) (299.9
Consolidated assets			\$16,986.8	\$16,534.4

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 - \$7.6 and \$24.0 compared to (a) \$7.2 and \$21.5 for the quarter and nine months ended September 30, 2014 and 2013, respectively, and Title - \$1.9 for both quarters ended September 30, 2014 and 2013 and \$5.9 for both nine month periods ended September 30, 2014 and 2013.

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

The material increases in mortgage guaranty insurance claims and loss payments that began in 2007 gradually depleted Republic Mortgage Insurance Company's ("RMIC") statutory capital base and forced it to discontinue writing new business. The insurance laws of 16 jurisdictions, including RMIC's and its affiliate company, Republic Mortgage Insurance Company of North Carolina's ("RMICNC") domiciliary state of North Carolina, require a mortgage insurer to maintain a minimum amount of statutory capital relative to risk in force (or a similar measure) in order to continue to write new business. The formulations currently allow for a maximum risk-to-capital ratio of 25 to 1, or alternatively stated, a "minimum policyholder position" ("MPP") of one-twenty-fifth of the total risk in force. The failure to maintain the prescribed minimum capital level in a particular state generally requires a mortgage insurer to immediately stop writing new business until it reestablishes the required level of capital or receives a waiver of the requirement from a state's insurance regulatory authority. RMIC breached the minimum capital requirement during the third quarter of 2010. RMIC had previously requested and, subsequently received waivers or forbearance of the minimum policyholder position requirements from the regulatory authorities in substantially all affected states. Following several brief extensions, the waiver from its domiciliary state of North Carolina expired on August 31, 2011, and RMIC and its sister company, RMICNC, discontinued writing new business in all states and limited themselves to servicing the run-off of their existing business. They were placed under the North Carolina Department of Insurance's ("NCDOI") administrative supervision

the following year and ordered to defer the payment of 50% of all settled claims. The rate of deferred payment obligations ("DPOs") was subsequently reduced to 40% later that year by the NCDOI.

On July 1, 2014, the NCDOI issued a Final Order approving an Amended and Restated Corrective Plan (the "Amended Plan") submitted jointly on April 16, 2014, by RMIC and RMICNC. Under the Amended Plan, RMIC and RMICNC was approved to pay 100% of their DPOs accrued as of June 30, 2014 and settle all subsequent valid claims entirely in cash, without establishing any DPOs. In anticipation of receiving this Final Order, ORI contributed \$125.0 in cash and securities to RMIC in June 2014. Both subsidiaries will remain under the supervision of the NCDOI as they continue to operate in run-off mode. The approval of the Amended Plan notwithstanding, the NCDOI retains its regulatory supervisory powers to review and amend the terms of the Amended Plan in the future as circumstances may warrant.

In mid-July 2014, in furtherance of the Final Order, RMIC and RMICNC processed payments of their accumulated DPO balances of approximately \$657 relating to fully settled claims charged to periods extending between January 19, 2012 and June 30, 2014.

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.

A purported class action lawsuit is pending against the Company's principal title insurance subsidiary, Old Republic National Title Insurance Company ("ORNTIC"), in a federal district court in Pennsylvania (Markocki et al. v. ORNTIC, U.S. District Court, Eastern District, Pennsylvania, filed June 8, 2006). 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 filed rate schedules. The suit also alleges violations of the federal Real Estate Settlement Procedures Act ("RESPA"). A class has been certified in the suit. ORNTIC is challenging the certification based on more recent case precedents.

On December 19, 2008, Old Republic Insurance Company and 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 ("BNYM") 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, a declaratory judgment and money damages based upon systemic material misrepresentations and fraud 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 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. The Court ruled that Countrywide does not have standing to counterclaim with respect to the policies insuring the securitized loans because those policies were issued to BNYM. In response, Countrywide and BNYM jointly filed a motion asking the Court to allow an amended counterclaim in which BNYM would raise substantially similar allegations as those raised by Countrywide and make substantially similar requests but with respect to the policies issued to BNYM. The Court dismissed their motion, with leave to re-plead the counterclaim. BNYM's subsequent attempt to re-plead was granted by the Court.

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 unspecified money damages, pre and post judgment interest and 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. Effective July 1, 2014, the parties entered a confidential settlement agreement. Upon completion of conditions subsequent set out in that agreement, the parties filed a stipulation of voluntary dismissal with prejudice of their respective claims in the lawsuit on July 29, 2014.

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.

On December 30, 2011 and on January 4, 2013, purported class action suits alleging RESPA violations were filed in the Federal District Court, for the Eastern District of Pennsylvania targeting RMIC, other mortgage guaranty insurance companies, PNC Financial Services Group (as successor to National City Bank) and HSBC Bank USA, N.A., and their wholly-owned captive insurance subsidiaries. (White, Hightower, et al. v. PNC Financial Services Group (as successor to National City Bank) et al.), (Ba, Chip, et al. v. HSBC Bank USA, N.A., et al.). The lawsuits are two of twelve against various lenders, their captive reinsurers and the mortgage insurers, filed by the same law firms, all of which were 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. Ten of the twelve suits have been dismissed. The remaining suits seek unspecified damages, costs, fees and the return of the allegedly improper payments. A class has not been certified in either suit and RMIC has filed motions to dismiss the cases.

On May 16, 2013, Bank of America, N.A. ("B of A") filed a demand for arbitration with the American Arbitration Association against both Republic Mortgage Insurance Company and Republic Mortgage Insurance Company of North Carolina (together, "RMIC") under the arbitration provisions of the RMIC Master Policy of mortgage guaranty insurance issued to B of A. The demand relates to RMIC's denials of certain claims and rescissions of coverage as to other claims. B of A alleges RMIC's actions were in breach of contract, in breach of RMIC's duty of good faith and fair dealing and in bad faith. The allegations are substantially similar to those raised by B of A's affiliates, Countrywide Financial Corporation and Countrywide Home Loans, Inc. in their arbitration demand against RMIC. B of A is a plaintiff in that proceeding as well, in its capacity as successor in interest to Countrywide Bank, N.A. B of A's demand requests a declaratory judgment with respect to the interpretation of certain policy provisions, B of A's compliance with certain terms and conditions of the policy, and the propriety of certain coverage positions and claims administration procedures of RMIC. The demand also seeks unspecified money damages, punitive, compensatory and consequential damages, interest, attorneys' fees and costs. The arbitration is proceeding.

On August 26, 2014, Bank of America, N.A. ("B of A") filed suit against both Republic Mortgage Insurance Company and Republic Mortgage Insurance Company of North Carolina (together, "RMIC") in the General Court of Justice, Superior Court Division for Mecklenburg County, North Carolina. The complaint arises in connection with a RMIC bulk mortgage guaranty insurance policy issued to B of A and several RMIC traditional primary mortgage guaranty insurance policies issued to correspondent lenders from whom B of A acquired loans or servicing rights on loans for which certificates of insurance were issued under such policies. The complaint relates to RMIC's denials and curtailments of certain claims and rescissions and cancellations of coverage as to other claims. B of A alleges RMIC's actions were in breach of contract, in breach of RMIC's duty of good faith and fair dealing and in bad faith. The allegations are substantially similar to those asserted by B of A in the May 16, 2013 American Arbitration Association arbitration demand against RMIC, and relate to loans that were dismissed from that proceeding. B of A's demand requests a declaratory judgment with respect to the interpretation of certain policy provisions, B of A's compliance with certain terms and conditions of the policy, and the propriety of certain coverage positions and claims administration procedures of RMIC. The demand also seeks money damages, punitive, compensatory and

consequential damages, interest, attorneys' fees and costs.

On October 9, 2014, Intellectual Ventures I LLC and Intellectual Ventures II LLC (collectively, "IV") served a complaint naming as defendants Old Republic National Title Insurance Company, Old Republic Title Insurance Group, Inc., Old Republic Insurance Company and Old Republic General Insurance Group, Inc. (collectively, "Old Republic")(Intellectual Ventures I LLC et al. v. Old Republic General Insurance Group, Inc. et al.). The lawsuit is pending in the United States District Court for the Western District of Pennsylvania. IV alleges that Old Republic has infringed three patents and seeks damages, costs, expenses, and pre-judgment and post-judgment interest for the alleged infringement, in addition to injunctive relief. On October 14, 2014, Old Republic filed a motion to dismiss each count of the complaint on the grounds that the patents fail to meet the patentability test established by the United States Supreme Court in *Alice Corp. Pty. Ltd. v. CLS Bank, 134 S.Ct. 2347 (2014)*.

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. The Company has made an estimate of its potential liability under certain of these lawsuits, the counterclaim, and the arbitration, all of which seek unquantified damages, attorneys' fees, and expenses. Because of the uncertainty of the ultimate outcomes of the aforementioned disputes, additional costs may arise in future periods beyond the Company's current reserves. It is also unclear what effect, if any, the run-off operations of RMIC and its limited capital will have in the actions against it.

7. Debt:

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

	September 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
3.75% Convertible Senior Notes due 2018	\$550.0	\$632.5	\$550.0	\$684.1
4.875% Senior Notes due 2024	400.0	412.3	—	—
ESSOP debt with an average yield of 3.66% and 3.69%, respectively	15.0	15.0	18.0	18.0
Other miscellaneous debt	—	—	1.2	1.2
Total debt	\$965.0	\$1,059.8	\$569.2	\$703.4

On September 23, 2014, the Company completed a public offering of \$400.0 aggregate principal amount of Senior Notes. The notes bear interest at a rate of 4.875% per year and mature on October 1, 2024.

The Company completed a public offering of \$550.0 aggregate principal amount of Convertible Senior Notes in early March, 2011. 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 and 4.875% Senior Notes ("the 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. Management believes the Final Order by the North Carolina Department of Insurance to RMIC has precluded such an event of default from occurring in the foreseeable future. Moreover, RMIC was statutorily solvent at September 30, 2014 and is expected to be increasingly less significant after payment of the DPO balance and as its run-off book extinguishes itself. While Old Republic believes that it will have access to the capital markets or otherwise mitigate an event of default under the Notes, there is no assurance that it would be able to do so under stressful capital market conditions.

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 the carrying value and fair value of financial liabilities segregated among the various input levels described in Note 3 above:

	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial Liabilities:					
Debt:					
September 30, 2014	\$965.0	\$1,059.8	\$—	\$1,044.8	\$15.0
December 31, 2013	\$569.2	\$703.4	\$—	\$684.1	\$19.2

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. During 2013, the IRS completed an examination of the Company's consolidated Federal income tax returns for the years 2005 through 2010, which produced no material change to the Company's net income. The IRS is scheduled to begin an examination of the Company's consolidated Federal income tax returns for the years 2011 through 2013 during the fourth quarter 2014. 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

Nine Months Ended September 30, 2014 and 2013

(\$ 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 accident insurance business, accounting for 1.3% of consolidated operating revenues for the nine months ended September 30, 2014 and 1.3% 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.

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 2013 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

Pretax operating income reflected moderately lower general insurance earnings and a continuation of renewed profitability in the run-off mortgage guaranty ("MI") line. Losses in the consumer credit indemnity ("CCI") portion of the run-off business, however, offset MI profitability. Year-over-year title insurance operating income was lower as transitory weaknesses in housing-related markets eroded the fast-paced earnings progress of the past three years. Consolidated net income for the 2014 third quarter and year-to-date period was once again enhanced by the realization of substantial gains from sales of investment securities. The major components of consolidated results and related data are summarized in the following table:

Financial Highlights

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Operating revenues:				
General insurance	\$ 803.2	\$ 729.0	\$ 2,315.4	\$ 2,108.9
Title insurance	478.7	544.5	1,309.8	1,534.9
Corporate and other	16.0	14.9	51.0	49.2
Subtotal	1,298.0	1,288.5	3,676.2	3,693.1
RFIG run-off business	71.4	86.0	216.5	271.3
Total	\$ 1,369.4	\$ 1,374.6	\$ 3,892.7	\$ 3,964.4
Pretax operating income (loss):				
General insurance	\$ 60.8	\$ 70.2	\$ 202.4	\$ 209.4
Title insurance	28.2	36.6	59.0	98.6
Corporate and other	0.3	0.8	(1.9)	3.6
Subtotal	89.4	107.8	259.5	311.7
RFIG run-off business	10.4	37.0	(4.2)	72.2
Total	99.8	144.9	255.2	384.0
Realized investment gains (losses):				
From sales and fair value adjustments	21.5	4.8	262.8	146.6
From impairments	—	—	—	—
Net realized investment gains (losses)	21.5	4.8	262.8	146.6
Consolidated pretax income (loss)	121.4	149.7	518.0	530.6
Income taxes (credits)	35.5	46.8	171.6	177.5
Net income (loss)	\$ 85.8	\$ 102.9	\$ 346.4	\$ 353.1
Components of diluted earnings per share:				
Net operating income (loss):				
General insurance	\$ 0.14	\$ 0.17	\$ 0.46	\$ 0.49
Title insurance	0.06	0.08	0.13	0.22
Corporate and other	0.03	0.02	0.05	0.05
Subtotal	0.23	0.27	0.64	0.76
RFIG run-off business	0.02	0.08	(0.01)	0.16
Total	0.25	0.35	0.63	0.92
Net realized investment gains (losses)	0.05	0.01	0.58	0.32
Net income (loss)	\$ 0.30	\$ 0.36	\$ 1.21	\$ 1.24
Cash dividends paid per share	\$ 0.1825	\$ 0.1800	\$ 0.5475	\$ 0.5400
Ending book value per share			\$ 15.16	\$ 14.44

The preceding table shows both operating and net income to highlight the effects of realized investment gain or loss recognition on period-to-period earnings comparisons. Management uses net operating income, a non-GAAP financial

measure, to evaluate and better explain operating performance, believing that this measure 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 recognition of realized investment gains or losses can be highly discretionary and arbitrary due to such factors as the timing of individual securities sales, recording 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. Since late 2013, asset management operations have, in part, been oriented toward an enhancement of income from interest and dividends. To a large extent, this strategy has led to sales of non-income producing or low-yielding securities. Proceeds from these sales have largely been reinvested in higher yielding common shares of American companies with distinguished long-term records of earnings and dividend growth.

General Insurance Results - The table below shows the major components of general insurance profitability.

	General Insurance Group			Nine Months Ended September 30,			
	Quarters Ended September 30, 2014	2013	Change	2014	2013	Change	
A. Prior to reclassification/Including CCI run-off business:							
Net premiums earned	\$ 713.7	\$ 652.5	9.4	% \$ 2,056.8	\$ 1,882.0	9.3	%
Net investment income	70.8	61.7	14.8	206.9	185.6	11.5	
Benefits and claim costs	571.7	490.6	16.5	1,670.4	1,400.0	19.3	
Pretax operating income (loss)	\$ 48.5	\$ 66.6	(27.1)	)% \$ 101.5	\$ 198.5	(48.9))%
Claim ratio	80.1	% 75.2	%	81.2	% 74.4	%	
Expense ratio	21.8	22.9		22.7	23.7		
Composite ratio	101.9	% 98.1	%	103.9	% 98.1	%	
B. All CCI run-off business reclassification(*):							
Net premiums earned	\$ 7.2	\$ 7.5	(4.2)	)% \$ 21.9	\$ 22.5	(2.8))%
Net investment income	0.1	0.1	10.2	0.4	0.2	41.9	%
Benefits and claim costs	19.1	10.7	78.5	121.5	32.5	N/M	
Pretax operating income (loss)	\$ (12.2)	\$ (3.6)	(233.7 )	)% \$ (100.9)	\$ (10.9)	N/M	
Claim ratio	N/M	141.9	%	N/M	144.0	%	
Expense ratio	6.7	% 8.4		8.3	% 5.7		
Composite ratio	N/M	150.3	%	N/M	149.7	%	
C. After reclassification/Total Excluding all CCI run-off business:							
Net premiums earned	\$ 706.5	\$ 644.9	9.5	% \$ 2,034.8	\$ 1,859.4	9.4	%
Net investment income	70.7	61.6	14.8	206.5	185.3	11.4	
Benefits and claim costs	552.5	479.9	15.1	1,548.9	1,367.5	13.3	
Pretax operating income (loss)	\$ 60.8	\$ 70.2	(13.5)	)% \$ 202.4	\$ 209.4	(3.4))%
Claim ratio	78.2	% 74.4	%	76.1	% 73.5	%	
Expense ratio	22.0	23.0		22.8	23.9		
Composite ratio	100.2	% 97.4	%	98.9	% 97.4	%	

(*) In connection with the run-off mortgage guaranty ("MI") and consumer credit indemnity ("CCI") combination, \$11.7 and \$99.0 of pretax operating losses for the third quarter and first nine months of 2014, and \$3.0 and \$9.4 of pretax operating losses for the same respective periods of 2013, are retained by certain general insurance companies pursuant to various quota share and stop loss reinsurance agreements. All of these amounts, however, have been reclassified and are included for segment reporting purposes such that section (B) in the above table incorporates 100% of the CCI run-off business results.

Consolidated general insurance operations, exclusive of the CCI run-off line, produced moderately lower pretax income from combined underwriting/service operations and net investment income. Growth in net premiums earned was slightly higher than the 8.1% gain registered for all of 2013. The continuing benefits of rate improvements and new business production accounted for the greater premium revenues in 2014.

Income from insurance underwriting and related services was lower for this year's third quarter and year-to-date periods. Claim costs remained under upward pressure for both workers' compensation and general liability coverages while the overall expense ratio trended down slightly. Net investment income benefitted from a larger invested asset base and the higher yields obtained from a greater commitment to dividend-paying equity securities holdings.

Title Insurance Results - Earnings remained positive in Old Republic's title insurance business despite a fairly significant downturn in real estate and mortgage transactions during the past several quarters. The following table reflects key operating trends evidencing these changed market conditions.

	Title Insurance Group			Nine Months Ended September 30,		
	Quarters Ended September 30, 2014	2013	Change	2014	2013	Change
Net premiums and fees earned	\$ 470.4	\$ 537.2	(12.4)%	\$ 1,285.3	\$ 1,513.1	(15.1)%
Net investment income	7.5	6.5	15.1)	22.1	19.4	13.6)
Claim costs	28.6	37.7	(24.2)	77.9	104.5	(25.5)
Pretax operating income (loss)	\$ 28.2	\$ 36.6	(23.1)%	\$ 59.0	\$ 98.6	(40.2)%
Claim ratio	6.1 %	7.0 %		6.1 %	6.9 %	
Expense ratio	89.2	87.0		90.6	87.5	
Composite ratio	95.3 %	94.0 %		96.7 %	94.4 %	

This year's decline in title insurance premiums and fees resulted mainly from a significant drop in refinance transactions since mid-year 2013. The impact of lower refinance activity was magnified by adverse winter weather conditions earlier in the year which likely deterred consumer spending and purchases, and by a rise in mortgage interest rates beginning mid-year 2013 which hindered mortgage extensions and refinancings. Underwriting-wise, the ratio of claim costs to premiums and fees was lower as claim frequency and severity continued to abate. The expense ratio rose as operating costs were down by a relatively lower percentage than the reduction in revenues

RFIG Run-off Business Results - The table below reflects RFIG's comparative results before and after the combination of run-off MI and CCI coverages within the single run-off business segment instituted in 2012.

	RFIG Run-off Business			Nine Months Ended September 30,		
	Quarters Ended September 30, 2014	2013	Change	2014	2013	Change
A. Prior to reclassification/Excluding CCI run-off business:						
Net premiums earned	\$ 57.6	\$ 68.9	(16.5)%	\$ 173.4	\$ 220.5	(21.4)%
Net investment income	6.4	9.3	(31.5)	20.6	27.8	(25.7)
Claim costs	36.7	31.7	15.8)	80.0	147.2	(45.6)
Pretax operating income (loss)	\$ 22.6	\$ 40.7	(44.4)%	\$ 96.6	\$ 83.2	16.2 %
Claim ratio	63.9 %	46.1 %		46.2 %	66.8 %	
Expense ratio	7.9	8.4		10.0	8.1	
Composite ratio	71.8 %	54.5 %		56.2 %	74.9 %	
B. CCI run-off business reclassification(*):						
Net premiums earned	\$ 7.2	\$ 7.5	(4.2)%	\$ 21.9	\$ 22.5	(2.8)%
Net investment income	0.1	0.1	10.2)	0.4	0.2	41.9 %
Benefits and claim costs	19.1	10.7	78.5)	121.5	32.5	N/M
Pretax operating income (loss)	\$ (12.2)	\$ (3.6)	(233.7)%	\$ (100.9)	\$ (10.9)	N/M
Claim ratio	N/M	141.9 %		N/M	144.0 %	
Expense ratio	6.7 %	8.4 %		8.3 %	5.7 %	
Composite ratio	N/M	150.3 %		N/M	149.7 %	
C. After reclassification/Total RFIG run-off MI and CCI business:						
Net premiums earned	\$ 64.8	\$ 76.5	(15.3)%	\$ 195.4	\$ 243.1	(19.6)%
Net investment income	6.5	9.4	(30.9)	21.1	28.1	(25.0)
Benefits and claim costs	55.9	42.5	31.6)	201.6	179.8	12.1)
Pretax operating income (loss)	\$ 10.4	\$ 37.0	(71.9)%	\$ (4.2)	\$ 72.2	(105.9)%
Claim ratio	86.3 %	55.5 %		103.2 %	73.9 %	
Expense ratio	7.8	8.4		9.8	7.9	

Composite ratio 94.1 % 63.9 % 113.0 % 81.8 %

(* In connection with the run-off mortgage guaranty ("MI") and consumer credit indemnity ("CCI") combination, \$11.7 and \$99.0 of pretax operating losses for the third quarter and first nine months of 2014, and \$3.0 and \$9.4 of pretax

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operating losses for the same respective periods of 2013, are retained by certain general insurance companies pursuant to various quota share and stop loss reinsurance agreements. All of these amounts, however, have been reclassified and are included for segment reporting purposes such that section (B) in the above table incorporates 100% of the CCI run-off business results.

Consistent with a run-off operating mode, the MI and CCI lines posted further declines in 2014 third quarter and year-to-date earned premiums. Investment income also dropped due to a pervasively low yield environment and a declining invested asset base. Downtrends in MI investment income were further accentuated as a greater proportion of investable assets had been allocated to short-term fixed income securities. This higher liquidity was established to fund the July 2014 payment of approximately \$657 for previously deferred claim settlements held in reserves. The latter were liquidated following regulatory approval. These payments, which had no income statement effect, reduced claim reserves and thus lessened balance sheet reserve leverage and the financial significance of the MI subsidiaries.

The resumed profitability of mortgage guaranty operations since last year's second quarter is largely due to much reduced claim provisions and resulting costs. Key factors driving lower MI claim costs relate mostly to the higher rates at which previously reported defaults are cured or otherwise resolved without payment, as well as gradually improving trends in home prices, foreclosures, and real estate activity in general. Since year-end 2012, these factors have led to favorable developments of prior year-end claim reserves. For the third quarters of 2014 and 2013, favorable loss developments resulted in a lowering of claim ratios by 13.7 and 123.9 percentage points, respectively. For the first nine months of each year, the related loss ratio reductions amounted to 75.2 and 105.9 percentage points, respectively. Changes in posted expense ratios for both 2014 periods reflect a continuing drop in earned premiums and charges taken relative to the MI subsidiaries' attempted recapitalization efforts which were terminated in this year's first quarter.

CCI results deteriorated significantly in 2014 as ongoing claim litigation costs burdened this portion of the RFIG run-off business. These costs rose materially in this year's second quarter as greater net reserve provisions were made to cover the final settlement of a litigated case and, for all periods, the ongoing claim litigation with a major lending institution.

Corporate and Other Operations - The combination of a small life and accident insurance business and the net costs associated with the parent holding company and its internal services subsidiaries usually produce highly variable results. Earnings variations posted by the combination of these relatively minor elements of Old Republic's business stem from volatility inherent to the small scale of life and accident insurance operations, and net interest costs pertaining to external and intra-system financing arrangements. The interplay of these various operating elements is summarized in the following table:

	Corporate and Other Operations					
	Quarters Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Change	2014	2013	Change
Life & accident premiums earned	\$ 14.7	\$ 13.5	8.7 %	\$ 46.3	\$ 44.4	4.3 %
Net investment income	1.2	1.3	(3.0)	4.5	4.2	8.2
Other income	—	—	(96.8)	—	0.6	(85.7)
Benefits and claim costs	9.3	8.3	11.9	33.2	25.6	29.5
Insurance expenses	6.3	6.6	(4.4)	20.4	21.3	(4.1)
Corporate, interest, and other expenses-net	—	(0.8)	96.5	(0.7)	(1.4)	47.0
Pretax operating income (loss)	\$ 0.3	\$ 0.8	(54.9)%	\$ (1.9)	\$ 3.6	(153.3)%

Cash, Invested Assets, and Shareholders' Equity - The table below reflects Old Republic's consolidated cash and invested assets as well as the shareholders' equity account at the dates shown:

Cash, Invested Assets, and Shareholders' Equity