

OLD REPUBLIC INTERNATIONAL CORP
Form 10-Q
May 10, 2011

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: March 31, 2011 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 March 31, 2011
Common Stock / \$1 par value	259,268,655

There are 42 pages in this report

OLD REPUBLIC INTERNATIONAL CORPORATION

Report on Form 10-Q / March 31, 2011

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

	(Unaudited) March 31, 2011	December 31, 2010
Assets		
Investments:		
Available for sale:		
Fixed maturity securities (at fair value) (amortized cost: \$8,132.8 and \$8,070.4)	\$ 8,563.7	\$ 8,532.2
Equity securities (at fair value) (adjusted cost: \$402.7 and \$402.8)	666.8	672.4
Short-term investments (at fair value which approximates cost)	1,390.2	1,004.0
Miscellaneous investments	34.6	40.7
Total	10,655.5	10,249.4
Other investments	9.7	9.8
Total investments	10,665.3	10,259.3
Other Assets:		
Cash	118.1	127.3
Securities and indebtedness of related parties	14.7	12.0
Accrued investment income	108.0	104.1
Accounts and notes receivable	1,051.6	1,022.9
Federal income tax recoverable: Current	40.5	44.6
Deferred	74.8	45.3
Prepaid federal income taxes	63.5	102.9
Reinsurance balances and funds held	209.5	205.4
Reinsurance Paid losses recoverable:	100.9	96.0
Policy and claim reserves	3,145.7	3,166.4
Deferred policy acquisition costs	235.1	230.6
Sundry assets	475.5	465.3
	5,638.3	5,623.4
Total Assets	\$ 16,303.6	\$ 15,882.7
Liabilities, Preferred Stock, and Common Shareholders' Equity		
Liabilities:		
Losses, claims, and settlement expenses	\$ 8,722.0	\$ 8,814.6
Unearned premiums	1,270.6	1,232.4
Other policyholders' benefits and funds	191.8	192.4
Total policy liabilities and accruals	10,184.5	10,239.5
Commissions, expenses, fees, and taxes	399.9	424.0
Reinsurance balances and funds	380.5	383.8
Debt	1,021.5	475.0
Sundry liabilities	267.0	238.8
Commitments and contingent liabilities		
Total Liabilities	12,253.5	11,761.3
Preferred Stock (1)	-	-

Common Shareholders' Equity:			
Common stock (1)		259.2	259.2
Additional paid-in capital		651.9	649.6
Retained earnings		2,733.9	2,791.4
Accumulated other comprehensive income (loss)		441.7	459.1
Unallocated ESSOP shares (at cost)		(36.8)	(38.0)
Treasury stock (at cost)(1)		-	-
Total Common Shareholders' Equity		4,050.1	4,121.4
Total Liabilities, Preferred Stock and Common Shareholders' Equity	\$	16,303.6	\$ 15,882.7

(1) At March 31, 2011 and December 31, 2010, 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 259,268,655 at March 31, 2011 and 259,222,360 at December 31, 2010 were issued. At March 31, 2011 and December 31, 2010, there were 100,000,000 shares of Class B Common Stock, \$1.00 par value, authorized, of which no shares were issued. There were no common shares classified as treasury stock as of March 31, 2011 and December 31, 2010.

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 March 31,		
		2011		2010
Revenues:				
Net premiums earned	\$	922.8	\$	752.3
Title, escrow, and other fees		80.1		76.1
Total premiums and fees		1,003.0		828.5
Net investment income		91.5		96.2
Other income		28.5		4.8
Total operating revenues		1,123.0		929.6
Realized investment gains (losses):				
From sales		6.4		2.9
From impairments		-		-
Total realized investment gains (losses)		6.4		2.9
Total revenues		1,129.5		932.6
Benefits, Claims and Expenses:				
Benefits, claims and settlement expenses		636.6		491.6
Dividends to policyholders		3.5		2.5
Underwriting, acquisition, and other expenses		503.6		400.6
Interest and other charges		10.6		6.5
Total expenses		1,154.4		901.3
Income (loss) before income taxes (credits)		(24.9)		31.2
Income Taxes (Credits):				
Current		6.2		11.4
Deferred		(18.1)		(5.2)
Total		(11.9)		6.2
Net Income (Loss)	\$	(12.9)	\$	25.0
Net Income (Loss) Per Share:				
Basic:	\$	(.05)	\$.11
Diluted:	\$	(.05)	\$.11
Average shares outstanding:	Basic	254,769,513		
	Diluted	254,769,513		236,387,779
				236,462,231
Dividends Per Common Share:				
Cash:	\$.1750	\$.1725

Consolidated Statements of Comprehensive Income (Unaudited)

Quarters Ended
March 31,

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	2011		2010
Net income (loss) as reported	\$ (12.9)	\$	25.0
Other comprehensive income (loss):			
Post-tax net unrealized gains (losses) on securities	(22.9)		111.5
Other adjustments	5.5		3.1
Net adjustments	(17.3)		114.6
Comprehensive income (loss)	\$ (30.3)	\$	139.7

See accompanying Notes to Consolidated Financial Statements.

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

	Quarters Ended March 31,	
	2011	2010
Cash flows from operating activities:		
Net income (loss)	\$ (12.9)	\$ 25.0
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred policy acquisition costs	(4.0)	5.3
Premiums and other receivables	(28.5)	(1.7)
Unpaid claims and related items	(54.5)	(144.5)
Other policyholders' benefits and funds	19.1	(21.3)
Income taxes	(13.7)	1.7
Prepaid federal income taxes	39.4	85.4
Reinsurance balances and funds	(12.3)	16.4
Realized investment (gains) losses	(6.4)	(2.9)
Accounts payable, accrued expenses and other	22.0	17.2
Total	(52.1)	(19.3)
Cash flows from investing activities:		
Fixed maturity securities:		
Maturities and early calls	302.0	169.1
Sales	123.1	68.9
Sales of:		
Other - net	13.2	1.0
Purchases of:		
Fixed maturity securities	(486.7)	(221.3)
Equity securities	-	(1.0)
Other-net	(8.8)	(5.7)
Net decrease (increase) in short-term investments	(389.5)	43.5
Other-net	-	2.9
Total	(446.7)	57.4
Cash flows from financing activities:		
Issuance of debentures and notes	537.1	70.0
Issuance of common shares	.5	2.3
Redemption of debentures and notes	(3.5)	(72.5)
Dividends on common shares	(44.5)	(40.6)
Other-net	-	.3
Total	489.6	(40.5)
Increase (decrease) in cash:	(9.1)	(2.3)
Cash, beginning of period	127.3	77.3
Cash, end of period	\$ 118.1	\$ 74.9

Supplemental cash flow information:

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Cash paid during the period for:	Interest	\$	2.5	\$.4
	Income taxes	\$	1.3	\$	4.4

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").

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 regarding the deferral of acquisition costs incurred by insurance entities. The new guidance, which is effective for interim and annual periods beginning after December 15, 2011, limits the capitalization of acquisition costs to those that are incrementally or directly related to the successful acquisition of new or renewal insurance contracts. The Company is currently evaluating this recently ratified guidance, however at this time, it does not expect the impact to have a material effect on its consolidated financial statements.

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 period. 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 number of shares used in basic and diluted earnings per share calculations.

	Quarters Ended March 31,	
	2011	2010
Numerator:		
Net Income (loss)	\$ (12.9)	\$ 25.0
Numerator for basic earnings per share - income (loss) available to common stockholders	(12.9)	25.0
Adjustment for interest expense incurred on assumed conversions of convertible senior notes	-	-
Numerator for diluted earnings per share - income (loss) available to common stockholders after assumed conversions	\$ (12.9)	\$ 25.0
Denominator:		
Denominator for basic earnings per share - weighted-average shares (a)	254,769,513	236,387,779
Effect of dilutive securities - stock based compensation awards	-	74,452

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Effect of dilutive securities - convertible senior notes		-	-
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions (a)		254,769,513	236,462,231
Earnings per share:	Basic	\$ (.05)	\$.11
	Diluted	\$ (.05)	\$.11
Anti-dilutive common share equivalents excluded from earnings per share computations:			
Stock based compensation awards		15,990,258	14,432,230
Convertible senior notes		36,814,753	27,458,280
Total		52,805,011	41,890,510

(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, 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 March 31, 2011 and December 31, 2010, 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 quarters ended March 31, 2011 and 2010.

The amortized cost and estimated fair values of fixed maturity securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed Maturity Securities:				
March 31, 2011:				
U.S. & Canadian Governments	\$ 1,298.5	\$ 50.7	\$ 4.3	\$ 1,344.9
Tax-exempt	1,322.5	66.2	.4	1,388.3
Corporates	5,511.7	340.6	21.8	5,830.4
	\$ 8,132.8	\$ 457.6	\$ 26.7	\$ 8,563.7
December 31, 2010:				
U.S. & Canadian Governments	\$ 1,366.1	\$ 57.6	\$ 4.3	\$ 1,419.4
Tax-exempt	1,391.0	69.2	.4	1,459.8
Corporates	5,313.2	360.2	20.5	5,652.9
	\$ 8,070.4	\$ 487.0	\$ 25.3	\$ 8,532.2

The amortized cost and estimated fair value of fixed maturity securities at March 31, 2011, by contractual maturity, are shown below. 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	Estimated Fair Value
Fixed Maturity Securities:		
Due in one year or less	\$ 792.7	\$ 804.5
Due after one year through five years	4,211.5	4,431.6
Due after five years through ten years	2,868.4	3,074.1
Due after ten years	260.1	253.4
	\$ 8,132.8	\$ 8,563.7

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A summary of the Company's equity securities reflecting reported adjusted cost, net of OTTI adjustments totaling \$244.9 at March 31, 2011 and \$245.4 at December 31, 2010 follows:

	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2011	\$ 402.7	\$ 264.4	\$.3	666.8
December 31, 2010	\$ 402.8	\$ 271.7	\$ 2.2	672.4

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 employing fair value comparisons with an issuer's adjusted cost at March 31, 2011 and December 31, 2010:

	12 Months or Less		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2011:						
Fixed Maturity Securities:						
U . S . & C a n a d i a n		4.3	-	-	210.4	4.3
Governments	\$ 210.4	\$	\$	\$	\$	\$
Tax-exempt	20.2	.4	-	-	20.2	.4
Corporates	1,003.3	21.4	10.1	.4	1,013.4	21.8
Subtotal	1,234.0	26.3	10.1	.4	1,244.2	26.7
Equity Securities	10.8	.3	-	-	10.9	.3
Total	\$ 1,244.9	\$ 26.7	\$ 10.1	\$.4	\$ 1,255.1	\$ 27.1
December 31, 2010:						
Fixed Maturity Securities:						
U . S . & C a n a d i a n		4.3	-	-		4.3
Governments	\$ 318.7	\$	\$	\$	\$ 318.7	\$
Tax-exempt	14.2	.4	-	-	14.2	.4
Corporates	729.5	19.3	26.0	1.2	755.5	20.5
Subtotal	1,062.4	24.1	26.0	1.2	1,088.5	25.3
Equity Securities	6.3	-	96.7	2.1	103.0	2.2
Total	\$ 1,068.8	\$ 24.1	\$ 122.7	\$ 3.4	\$ 1,191.6	\$ 27.5

At March 31, 2011, the Company held 312 fixed maturity and 3 equity securities in an unrealized loss position, representing 15.2% as to fixed maturities and 7.1% as to equity securities of the total number of such issues it held. At December 31, 2010, the Company held 283 fixed maturity and 3 equity securities in an unrealized loss position, representing 13.5% as to fixed maturities and 7.1% as to equity securities of the total number of such issues it held. Of the securities in an unrealized loss position, 3 and 5 fixed maturity securities and 1 and 2 equity securities had been in a continuous unrealized loss position for more than 12 months as of March 31, 2011 and December 31, 2010, 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. The Company has not sold nor does it expect to sell investments for purposes of

generating cash to pay claim or expense obligations.

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 securities 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 using 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") of mutual funds, and most short-term investments in highly liquid money market instruments. Level 2 securities generally include corporate bonds, municipal bonds, certain U.S. and Canadian government agency securities, and a restricted publicly traded common stock. 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 March 31, 2011 and December 31, 2010.

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

	Fair value measurements as of March 31, 2011:			
	Level 1	Level 2	Level 3	Total
Available for sale:				
Fixed maturity securities				
U.S. & Canadian Governments	\$ 444.4	\$ 900.5	\$ -	\$ 1,344.9
Tax-exempt	-	1,388.3	-	1,388.3
Corporates	-	5,799.7	30.6	5,830.4
Equity securities	525.2	139.4	2.1	666.8
Short-term investments	\$ 1,384.8	\$ -	\$ 5.3	\$ 1,390.2

	Fair value measurements as of December 31, 2010:			
	Level 1	Level 2	Level 3	Total
Available for sale:				
Fixed maturity securities:				
U.S. & Canadian Governments	\$ 483.9	\$ 935.4	\$ -	\$ 1,419.4
Tax-exempt	-	1,459.8	-	1,459.8
Corporates	-	5,622.2	30.6	5,652.9
Equity securities	525.0	145.0	2.4	672.4
Short-term investments	\$ 998.6	\$ -	\$ 5.4	\$ 1,004.0

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 March 31, 2011, 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 years shown.

	Quarters Ended March 31,	
	2011	2010
Investment income from:		
Fixed maturity securities	\$ 89.1	\$ 94.3
Equity securities	2.4	.9
Short-term investments	.4	.3
Other sources	1.1	1.3
Gross investment income	93.0	96.9
Investment expenses (a)	1.5	.7
Net investment income	\$ 91.5	\$ 96.2
Realized gains (losses) on:		
Fixed maturity securities:		
Gains	\$ 7.5	\$ 3.0
Losses	(1.1)	(.1)
Net	6.5	2.9
Equity securities & other long-term investments	-	-
Total	6.4	2.9
Income taxes (credits)(b)	2.2	1.0
Net realized gains (losses)	\$ 4.2	\$ 1.9
Changes in unrealized investment gains (losses) on:		
Fixed maturity securities	\$ (30.3)	\$ 44.3
Less: Deferred income taxes (credits)	(10.5)	15.5
Net changes in unrealized investment gains (losses)	\$ (19.7)	\$ 28.7
Equity securities & other long-term investments	\$ (5.1)	\$ 127.2
Less: Deferred income taxes (credits)	(1.8)	44.5
Net changes in unrealized investment gains (losses)	\$ (3.2)	\$ 82.7

(a) Investment expenses consist of personnel costs and investment management and custody service fees, as well as a negligible amount of interest incurred on funds held.

(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 March 31, 2011, the Company has four pension plans covering a portion of its work force. The four plans are the Old Republic International Employees 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 \$7.3 were made to the pension plans in the first quarter of 2011, and additional cash contributions of \$16.1 are expected to be made in the remaining portion of calendar year 2011.

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 (property and liability insurance), Mortgage Guaranty and Title Insurance Groups. The results of a small life & health insurance business are included with those of its corporate and minor service 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.

	Quarters Ended March 31,	
	2011	2010
General Insurance Group:		
Net premiums earned	\$ 532.3	\$ 411.8
Net investment income and other income	93.2	67.3
Total revenues before realized gains or losses	\$ 625.5	\$ 479.1
Income (loss) before income taxes (credits) and realized investment gains or losses (a)	\$ 68.5	\$ 69.2
Income tax expense (credits) on above	\$ 21.2	\$ 21.1
Mortgage Guaranty Group:		
Net premiums earned	\$ 113.9	\$ 136.2
Net investment income and other income	17.2	24.2
Total revenues before realized gains or losses	\$ 131.2	\$ 160.5
Income (loss) before income taxes (credits) and realized investment gains or losses (a)	\$ (101.1)	\$ (34.1)
Income tax expense (credits) on above	\$ (35.7)	\$ (13.2)
Title Insurance Group:		
Net premiums earned	\$ 252.6	\$ 179.0
Title, escrow and other fees	80.1	76.1
Sub-total	332.8	255.2
Net investment income and other income	7.1	6.8
Total revenues before realized gains or losses	\$ 339.9	\$ 262.0
Income (loss) before income taxes (credits) and realized investment gains or losses (a)	\$ 2.6	\$ (8.6)
Income tax expense (credits) on above	\$.7	\$ (3.2)
Consolidated Revenues:		
Total revenues of above Company segments	\$ 1,096.8	\$ 901.7
Other sources (b)	40.4	41.9
Consolidated net realized investment gains (losses)	6.4	2.9
Consolidation elimination adjustments	(14.1)	(14.0)
Consolidated revenues	\$ 1,129.5	\$ 932.6
Consolidated Income (Loss) Before Taxes (Credits):		
Total income (loss) before income taxes (credits) and realized investment gains or losses of above Company segments	\$ (30.0)	\$ 26.5
Other sources – net (b)	(1.3)	1.8
Consolidated net realized investment gains (losses)	6.4	2.9
Consolidated income (loss) before income taxes (credits)	\$ (24.9)	\$ 31.2
Consolidated Income Tax Expense (Credits):		
Total income tax expense (credits) for above Company segments	\$ (13.6)	\$ 4.6
Other sources – net (b)	(.6)	.5
Income tax expense (credits) on		

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consolidated net realized investment gains (losses)		2.2		1.0
Consolidated income tax expense (credits)	\$	(11.9)	\$	6.2
		March 31,		December 31,
		2011		2010
Consolidated Assets:				
General	\$	12,226.1	\$	12,189.8
Mortgage		2,387.8		2,537.9
Title		910.0		915.0
Other assets (b)		1,090.1		576.7
Consolidation elimination adjustments		(310.4)		(336.8)
Consolidated	\$	16,303.6	\$	15,882.7

- (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 - \$5.4 and \$5.3 for the quarters ended March 31, 2011 and 2010, respectively; Mortgage - \$1.8 and \$1.7 for the quarters ended March 31, 2011 and 2010, respectively; and Title - \$1.3 and \$1.3 for the quarters ended March 31, 2011 and 2010, respectively.
- (b) Represents amounts for Old Republic's holding company parent, minor corporate services subsidiaries, and a small life and health insurance operation.

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.

Beginning in early February 2008, some 80 purported consumer class action lawsuits were filed against the title industry's principal title insurance companies, their subsidiaries and affiliates, and title insurance rating bureaus or associations in at least 10 states. ORNTIC was a named defendant in actions filed in 5 of the states. The suits were substantially identical in alleging that the defendant title insurers engaged in illegal price-fixing agreements to set artificially high premium rates and conspired to create premium rates which the state insurance regulatory authorities could not evaluate and therefore, could not adequately regulate. Most of the suits have since been dismissed. Of those remaining, ORNTIC is currently among the named defendants in only one of these actions, in California. The anti-trust allegations in the California action have been dismissed and only the allegations of improper business practices under state law remain. The other suits in which ORNTIC was a named defendant were dismissed at the trial court level, and the dismissals are on appeal before the 3rd and 6th Circuits U.S. Courts of Appeals.

National class action suits have been filed against the Company's subsidiary, Old Republic Home Protection Company ("ORHP") in the California Superior Court, San Diego, and the U.S. District Court in Birmingham, Alabama. The California suit has been filed on behalf of all persons who made a claim under an ORHP home warranty contract from March 6, 2003 to the present. 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, and on January 6, 2011 the Court denied plaintiff's motion for class certification. The Alabama suit alleges that ORHP pays fees to the real estate brokers who market its home warranty contracts and that the payment of such fees is in violation of Section 8(a) of RESPA. The suit seeks unspecified damages, including treble damages under RESPA. No class has been certified in the Alabama action.

On December 19, 2008, Old Republic Insurance Company ("ORIC") 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 seeking declaratory judgment to rescind or terminate 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. In February of 2009, 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 of March 31, 2011, Old Republic had rescinded or denied coverage on more than 18,000 defaulted loans, based upon material misrepresentations either by Countrywide as to the credit characteristics of the loans or by the borrowers in their loan applications.

On November 3, 2010, Bank of America, N.A. ("B of A") filed suit against ORIC in the U.S. District Court for the Western District of North Carolina 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 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"). 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. RMIC has appealed the Court's ruling.

On November 23, 2010, J.P. Morgan Chase Bank, N.A. ("Chase") filed a suit against RMIC in the U.S. District Court for the District of New Jersey arising out of RMIC's rescissions of coverage on a number of mortgage loans. The law suit alleges improper unilateral rescissions of coverage and improper claims investigation practices with respect to mortgage loans that were either originated by Chase or purchased by Chase from other loan originators, as well as mortgage loans for which Chase had purchased the servicing rights. The suit alleges a breach of contract, a breach of fiduciary duty and bad faith insurance practices. Chase seeks a declaratory judgment that RMIC may not unilaterally rescind coverage and may not challenge Chase's loan underwriting process where RMIC delegated insurance underwriting authority to Chase or where RMIC performed loan underwriting services for Chase. It also seeks injunctive relief against RMIC's coverage rescissions and unspecified compensatory, treble and punitive damages.

On November 29, 2010, a purported class action was filed in the U.S. District Court, District of Columbia, against SunTrust Bank, its two captive reinsurance subsidiaries, and seven mortgage guaranty insurance companies, including RMIC (*Moses v. SunTrust Banks, Inc., et al.*; Case No. 1:10-CV-02029-PLF). The suit alleges that the cession of mortgage guaranty premiums to SunTrust's captive reinsurers amounted in part to a kickback to SunTrust for the referral of mortgage guaranty insurance business, in violation of RESPA. The suit also alleges violations of the federal Truth-in-Lending Act, Regulation Z, the District of Columbia's Consumer Protection Procedures Act, fraudulent misrepresentation and civil conspiracy, emanating principally from a failure by SunTrust to disclose to its mortgage loan customers its captive reinsurance arrangements. The suit seeks unspecified actual, statutory, compensatory and punitive damages, injunctive relief, attorneys' fees and costs. On March 11, 2011, the plaintiffs voluntarily dismissed all of the mortgage guaranty insurance companies, including RMIC.

On February 18, 2011, the Federal Deposit Insurance Corporation, as receiver of AmTrust Bank, filed a suit against ORIC in the U.S. District Court for the Northern District of Ohio arising out of ORIC's termination of a credit indemnity policy issued to insure home equity loans made or held by AmTrust. The suit alleges breach of contract and seeks a declaratory judgment that ORIC's attempted termination and/or cancellation of the policy did not terminate coverage of the insured loans and that ORIC remains obligated to provide coverage for such loans under the policy.

The suit seeks damages in excess of \$46, declaratory relief, pre-and post-judgment interest, attorneys' fees and costs.

The ultimate impact of these lawsuits and the arbitration, all of which seek unquantified damages, attorneys' fees and expenses, is uncertain and not reasonably estimable at this time. The Company and its subsidiaries intend to defend vigorously against each of the aforementioned actions. Although the Company does not believe that these actions will have a material adverse effect on its consolidated financial condition, results of operations or cash flows, there can be no assurance in those regards.

7. Debt:

On March 9, 2011, the Company completed a public offering of \$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 of common stock per one thousand dollar note.

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

	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
3.75% Convertible Senior Notes due 2018	\$ 550.0	\$ 555.0	\$ -	\$ -
8% Convertible Senior Notes due 2012	316.2	376.3	316.2	399.2
ESSOP debt with an average yield of 3.76% and 3.77%, respectively	23.4	23.4	25.8	25.8
Junior subordinated debt due 2033 - 2037 with average yields of 4.36% to 8.29% and 4.34% to 8.29%, respectively	62.5	62.5	62.5	62.5
8.5% Senior Notes due 2018	55.6	55.6	56.4	56.4
Surplus notes due 2035 with an average yield of 4.80% and 4.79%, respectively	10.0	10.0	10.0	10.0
Other miscellaneous debt	3.6	3.6	4.0	4.0
Total debt	\$ 1,021.5	\$ 1,086.6	\$ 475.0	\$ 558.1

On March 4, 2011, the Company terminated a \$150.0 one year commercial paper credit facility.

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. Examinations of the Company's consolidated Federal income tax returns through year-end 2006 have been completed and no significant adjustments have resulted. 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
Quarters Ended March 31, 2011 and 2010
(\$ 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" or "the Company"). The Company conducts its operations through three major regulatory segments, namely, its General (property and liability), Mortgage Guaranty, and Title insurance segments. A small life and health insurance business, accounting for 2.3% of consolidated operating revenues for the quarter ended March 31, 2011 and 1.6% of consolidated assets as of March 31, 2011, 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 are recent disclosure requirements pertaining to uncertainties affecting income tax provisions, methodologies for establishing the fair value and recording of other-than-temporary impairments of securities, possible consolidation of variable interest entities, and composition of plan assets held by the Company's defined benefit plans. In October 2010, the FASB also issued new guidance relative to the calculation of deferred acquisition costs incurred by insurance entities. The requisite disclosures and explanations for these matters are covered in the pertinent sections of this Management Analysis and/or footnotes to the Company's consolidated financial statements regularly included in its quarterly and annual reports to the SEC on Forms 10-Q and/or 10-K, respectively.

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 the laws of each of the 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, 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 2010 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. 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

The achievement of consistent quarterly profitability was once again delayed in this year's first quarter. A net operating loss of \$17.1 was sustained in comparison with an operating gain of \$23.1 in last year's first quarter. This year's quarterly loss follows a \$32.4 loss in the fourth quarter of 2010.

First quarter 2011 financial data includes the accounts of PMA Capital Corporation ("PMA") whose merger with Old Republic occurred on October 1, 2010. The inclusion of PMA-related accounts in this year's first quarter had a positive effect on consolidated operating revenues and net operating results of approximately \$142.0 and \$7.0, respectively.

From a business segment standpoint, quarter-over-quarter comparisons reflect relatively flat profitability for Old Republic's general insurance business, a much greater operating loss in mortgage guaranty, and a positive turn to title insurance profitability for the fourth consecutive quarter.

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

	Quarters Ended March 31,		
	2011	2010	Change
Operating revenues:			
General insurance	\$ 625.5	\$ 479.1	30.6%
Mortgage guaranty	131.2	160.5	-18.2
Title insurance	339.9	262.0	29.7
Corporate and other	26.2	27.8	-5.6
Total	\$ 1,123.0	\$ 929.6	20.8%
Pretax operating income (loss):			
General insurance	\$ 68.5	\$ 69.2	-1.1%
Mortgage guaranty	(101.1)	(34.1)	-196.6
Title insurance	2.6	(8.6)	130.2
Corporate and other	(1.3)	1.8	-176.3
Sub-total	(31.4)	28.3	-210.9
Realized investment gains (losses):			
From sales	6.4	2.9	
From impairments	-	-	
Net realized investment gains (losses)	6.4	2.9	117.9
Consolidated pretax income (loss)	(24.9)	31.2	-179.6
Income taxes (credits)	(11.9)	6.2	-292.6
Net income (loss)	\$ (12.9)	\$ 25.0	-151.6%
Consolidated underwriting ratio:			
Benefits and claim ratio	63.8%	59.6%	
Expense ratio	47.0	47.4	
Composite ratio	110.8%	107.0%	
Components of diluted earnings per share:			
Net operating income (loss)	\$ (0.07)	\$ 0.10	-170.0%
Net realized investment gains (losses)	0.02	0.01	

Net income (loss)	\$ (0.05)	\$ 0.11	-145.5%
Cash dividends paid per share	\$ 0.1750	\$ 0.1725	1.4%

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 basic business results. Operating income, however, does not replace net income determined in accordance with GAAP as a measure of total profitability.

The preceding table shows both operating and net income or loss to highlight the effects of realized investment gain or loss recognition on period-to-period comparisons. The composition of realized gains shown in the preceding table is summarized below:

	Quarters Ended March 31,	
	2011	2010
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	-
Net realized gains from sales of all other securities	6.0	2.9
Net gain (loss) from actual sales	6.4	2.9
Net realized losses from impairments	-	-
Net realized investment gains (losses) reported herein	\$ 6.4	\$ 2.9

General Insurance Results – Operating earnings for 2011’s first quarter were affected by moderately higher claim costs and the above-noted inclusion of PMA’s accounts. Key indicators of quarter-over-quarter performance are shown in the following table:

	General Insurance Group Quarters Ended March 31,		
	2011	2010	Change
Net premiums earned	\$ 532.3	\$ 411.8	29.3%
Net investment income	66.4	64.6	2.7
Benefits and claims costs	389.7	290.7	34.0
Pretax operating income (loss)	\$ 68.5	\$ 69.2	-1.1%
Claim ratio	73.2%	70.6%	
Expense ratio	24.9	26.7	
Composite ratio	98.1%	97.3%	

First quarter, 2011 inclusion of PMA-related accounts resulted in approximate increases of \$113.7 in net premiums earned, \$3.6 in net investment income, \$80.8 in benefits and claims costs, and \$10.9 in pretax operating income. The latter amount is stated after deduction of PMA’s interest and general corporate expenses of \$2.5.

Excluding PMA’s contribution, the remaining portion of general insurance net premiums earned reflected basically flat quarter-over-quarter comparisons. As reported for the past several years, the combination of recessionary conditions and a soft pricing environment in the commercial insurance arena has constrained premium growth. Lessened economic activity affects such factors as insureds’ sales and employment levels, both of which are important elements upon which Old Republic’s insurance premiums are based.

Overall general insurance underwriting performance was relatively stable in this year’s first quarter. However, the consumer credit indemnity coverage which is in temporary run off and thus reflects renewal premiums from 2008 and prior production, continued to produce significantly adverse underwriting results. As a consequence, the overall general insurance claim ratio was burdened by an additional 4.3 and 3.9 percentage points in the first quarter of 2011 and 2010, respectively.

While the PMA merger produced a meaningful addition to the General Insurance segment’s invested asset base, net investment income did not grow commensurably. The lower yields available for newly investable funds and the relatively short maturity configuration of the investment portfolio continued to impede revenue growth.

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Mortgage Guaranty Results – Operating performance in this year’s first quarter was impacted adversely by higher claim costs and much lower net investment income from a smaller invested asset base. Key indicators of this segment’s quarterly results are shown in the following tables:

	Mortgage Guaranty Group		
	Quarters Ended March 31,		
	2011	2010	Change
Net premiums earned	\$ 113.9	\$ 136.2	-16.4%
Net investment income	16.6	23.1	-28.0
Claims costs	212.7	173.3	22.7
Pretax operating income (loss)	\$ (101.1)	\$ (34.1)	-196.6%
Claim ratio	186.7%	127.2%	
Expense ratio	15.1	13.5	
Composite ratio	201.8%	140.7%	

In the first quarter of 2010, Old Republic’s mortgage guaranty subsidiaries had negotiated the terminations of various captive reinsurance and pool insurance contracts. From a financial accounting standpoint, premiums obtained upon

terminations of captive reinsurance agreements are recognized as income when they are received rather than being deferred to future periods when the related claim costs are expected to arise. While terminations of pool insurance contracts cause a reduction of incurred claims due to the positive effect of reserves transferred, cash outflows ensue. As a result of these transactions, net premiums earned were enhanced by \$5.4, net losses incurred were reduced by \$30.3, and net operating cash outflows of \$166.8 were sustained in last year's first quarter.

Mortgage Guaranty Group earned premiums continued to decline in the latest quarter. The reduction stemmed from lower volumes of new insurance, premium refunds related to claim rescissions, and the above noted termination of pool insurance contracts which transferred subsequent premium flows. Moreover, new business volume reflected ongoing weakness from the downturn in overall mortgage originations, industry-wide penetration of the nation's current mortgage market, and the effects of the more selective underwriting guidelines in place since late 2007.

Net investment income declined as the result of a lower invested asset base brought about by higher claim disbursements, lower premium volume, termination of insured mortgage pools, and a low yield environment for quality securities to which the investment portfolio is directed.

Apart from the effect of the aforementioned captive and pool transactions on 2010 premiums and claim costs, mortgage guaranty recurring claim costs rose by 4.4% in this year's first quarter. While newly reported defaults and cure rates reflected improved trends, much higher claim payments and reduced levels of claim rescissions and denials added measurably to the latest quarter's incurred claims. The following table shows the major components of incurred claim ratios with the above noted effects of captive reinsurance and pool insurance contract terminations.

	Mortgage Guaranty Group Quarters Ended March 31,	
	2011	2010
Components of incurred claim ratio as a percent of earned premiums:		
Paid claims:		
Excluding captive and pool transactions	253.0%	114.7%
Captive and pool transactions	-.3	121.8
Paid claim ratio	252.7	236.5
Claim reserve provisions:		
Excluding captive and pool transactions	-66.1	41.0
Captive and pool transactions	.1	-150.3
Claim reserve provision ratio	-66.0	-109.3
Incurring claim ratio: As reported	186.7%	127.2%
Excluding captive and pool transactions	186.9%	155.7%

Production and other expenses declined by nearly 8% quarter-over-quarter. From an expense ratio standpoint, however, this beneficial effect was largely negated by a greater decline in the earned premium base.

Title Insurance Results – Old Republic's title business continued to reflect the positive operating momentum that first emerged in the second quarter of 2009. Key performance indicators are shown below:

	Title Insurance Group Quarters Ended March 31,		
	2011	2010	Change

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Net premiums and fees earned	\$ 332.8	\$ 255.2	30.4%
Net investment income	6.6	6.6	.6
Claims costs	26.0	18.8	38.4
Pretax operating income (loss)	\$ 2.6	\$ (8.6)	130.2%
Claim ratio	7.8%	7.4%	
Expense ratio	93.0	98.5	
Composite ratio	100.8%	105.9%	

Continued growth in premiums and fees benefitted mostly from market share gains emanating from title industry dislocations and consolidation during the past three years or so. The claim ratio for this year's first quarter was slightly elevated as it reflected moderate additions to reserve levels responding to current claim emergence trends. While production and other expenses rose by 23.6% quarter-over-quarter, the increase was significantly lower than the 30.4% growth in premiums and fees revenues.

Corporate and Other Operations – The Company’s small life and health business and the net costs associated with the parent holding company and its internal services subsidiaries produced a small loss for the first quarter of 2011. Period-to-period variations in the results posted by these relatively minor elements of Old Republic’s operations usually stem from volatility inherent to the small scale of its life and health business, fluctuations in the costs of external debt, and net interest expenses on intra-system financing arrangements.

	Quarters Ended March 31,		
	2011	2010	Change
Life & health premiums earned	\$ 23.8	\$ 25.1	-5.0%
Net investment income	1.7	1.8	-2.9
Other income	.6	.8	-28.6
Benefits and claims	11.6	11.2	4.1
Insurance expenses	12.6	12.4	1.5
Corporate and other expenses-net	3.2	2.3	43.1
Pretax operating income (loss)	\$ (1.3)	\$ 1.8	-176.3%

Cash, Invested Assets, and Shareholders’ Equity – The following table reflects Old Republic's consolidated cash and invested assets as well as shareholders' equity accounts at the dates shown:

		March	December	March	% Change	
		2011	2010	2010	March '11/ Dec '10	March '11/ March '10
Cash and invested assets:	Fair value basis	\$ 10,891.4	\$ 10,490.7	\$ 9,985.9	3.8 %	9.1 %
	Original cost basis	\$ 10,450.3	\$ 10,015.1	\$ 9,561.2	4.3 %	9.3 %
Shareholders’ equity:	Total	\$ 4,050.1	\$ 4,121.4	\$ 3,995.8	-1.7 %	1.4 %
	Per common share	\$ 15.87	\$ 16.16	\$ 16.90	-1.8 %	-6.1 %
Composition of shareholders’ equity per share:						
	Equity before items below	\$ 14.14	\$ 14.36	\$ 14.92	-1.5 %	-5.2 %
	Unrealized investment gains (losses) and other accumulated comprehensive income (loss)	1.73	1.80	1.98		
	Total	\$ 15.87	\$ 16.16	\$ 16.90	-1.8 %	-6.1 %

Consolidated cash flow from operating activities produced a deficit of \$52.1 for the first three months of 2011 compared to a deficit of \$19.3 for the same period of 2010.

The consolidated investment portfolio reflects a current allocation of approximately 80% to fixed-maturity securities and 6% to equities. As has been the case for many years, Old Republic’s invested assets are managed in consideration of enterprise-wide risk management objectives. These are intended to assure solid funding of its insurance subsidiaries’ long-term obligations to policyholders and other beneficiaries, and the necessary long-term stability of capital accounts. The consolidated cash and invested assets base at March 31, 2011 is inclusive of net proceeds of approximately \$537 from the issuance of 3.75% Convertible Senior Notes due 2018 which were sold in early March 2011.

The investment portfolio contains no significant direct insurance risk-correlated asset exposures to real estate, mortgage-backed securities, collateralized debt obligations ("CDO's"), derivatives, junk bonds, hybrid securities, or

illiquid private equity investments. In a similar vein, the Company does not engage in hedging or securities lending transactions, nor does it invest in securities whose values are predicated on non-regulated financial instruments exhibiting amorphous or unfunded counter-party risk attributes.

Old Republic's equity investments include common stock holdings in two leading publicly held mortgage guaranty ("MI") businesses (MGIC Investment Corp. and The PMI Group). These securities were acquired in 2007 and 2008 as passive long-term investment additions for a core segment of Old Republic's business in anticipation of a cyclical recovery of the MI industry in 2010. In management's judgment, the past three years' depressed market valuations of companies operating in the housing and mortgage-lending sectors of the American economy have been impacted significantly by cyclical and macroeconomic conditions affecting these sectors, and by the systemic dysfunctionality of the banking and mortgage-lending industries. As shown in the following table, the March 31, 2011 aggregate fair value of the two securities was still significantly below their original cost but approximately 92% above the other-than-temporarily-impaired level to which they were written down in 2008.

	As of and for Periods Ended:		
	March 31, 2011	2010	December 31 2009
Total value of the two MIO investments:	\$ 313.2	\$ 313.2	\$ 416.4
Original cost			
Impaired cost	75.6	75.6	106.8
Fair value	144.8	167.9	130.7
Underlying equity(*) \$	124.4	\$ 136.2	\$ 274.6
Pretax other-than-temporary impairments recorded in income statement of the period	\$ -	\$ -	\$ -
Pretax unrealized investment gains (losses) recorded directly in shareholders' equity account:			
For the period	\$ (23.0)	\$ 68.4	\$ 48.0
Cumulatively	\$ 69.2	\$ 92.3	\$ 23.9

(*) Underlying equity based on latest reports (which may lag by one quarter) issued by investees.

Substantially all changes in the shareholders' equity account reflect the Company's net income or loss, dividend payments to shareholders, and impairments or changes in market valuations of invested assets during the periods shown below:

	Shareholders' Equity Per Share Quarters Ended March 31,	
	2011	2010
Beginning balance	\$ 16.16	\$ 16.49
Changes in shareholders' equity:		
Net operating income (loss)	(0.07)	0.10
Net realized investment gains (losses):		
From sales	0.02	0.01
From impairments	-	-
Subtotal	0.02	0.01
Net unrealized investment gains (losses)	(0.09)	0.47
Total realized and unrealized investment gains (losses)	(0.07)	0.48
Cash dividends	(0.17)	(0.17)
Stock issuance, foreign exchange, and other transactions	0.02	-
Net change	(0.29)	0.41
Ending balance	\$ 15.87	\$ 16.90

DETAILED MANAGEMENT ANALYSIS

This section of the Management Analysis of Financial Position and Results of Operations is additive to and should be read in conjunction with the Executive Summary which precedes it.

FINANCIAL ACCOUNTING AND REPORTING POLICIES

The Company's annual and interim financial statements incorporate a large number and types of estimates relative to matters which are highly uncertain at the time the estimates are made. The estimation process required of an insurance enterprise is by its very nature highly dynamic inasmuch as it necessitates a continuous evaluation, analysis, and quantification of factual data as it becomes known to the Company. As a result, actual experienced outcomes can differ from the estimates made at any point in time, and thus affect future periods' reported revenues, expenses, net income or loss, and financial condition.

Old Republic believes that its most critical accounting estimates relate to: a) the determination of other-than-temporary impairments ("OTTI") in the value of fixed maturity and equity investments; b) the establishment of deferred acquisition costs which vary directly with the production of insurance premiums; c) the recoverability of reinsured paid and/or outstanding losses; and d) the establishment of reserves for losses and loss adjustment expenses. The major assumptions and methods used in setting these estimates are discussed in the Company's 2010 Annual Report on Form 10K.

In recent years, the Financial Accounting Standards Board ("FASB") has issued various releases requiring additional financial statement disclosures, and to provide guidance relative to the application of such releases. Of particular relevance to the Company's financial statements are recent disclosure requirements pertaining to uncertainties affecting income tax provisions, methodologies for establishing the fair value and recording of other-than-temporary impairments of securities, possible consolidation of variable interest entities, and composition of plan assets held by the Company's defined benefit plans. The requisite disclosures and explanations of these matters have been included in the footnotes to the Company's financial statements. In October 2010, the FASB also issued new guidance relative to the calculation of deferral of acquisition costs incurred by insurance entities. This new guidance is discussed further in Note 1 of the Notes to Consolidated Financial Statements.

FINANCIAL POSITION

The Company's financial position at March 31, 2011 reflected increases in assets and liabilities of 2.7% and 4.2%, respectively, and a decrease in common shareholders' equity of 1.7% when compared to the immediately preceding year-end. Cash and invested assets represented 66.8% and 66.1% of consolidated assets as of March 31, 2011 and December 31, 2010, respectively. As of March 31, 2011, the invested asset base rose by 4.0% to \$10,665.3 principally as a result of investing the net proceeds from a public offering of convertible senior notes (see Note 7) offset by negative consolidated operating cash flows, a decline in the fair value of investments, and the payment of cash dividends to common shareholders.

Investments - During the first quarter of 2011 and 2010, the Company committed the majority of investable funds to short to intermediate-term fixed maturity securities. At both March 31, 2011 and 2010, approximately 99% of the Company's investments consisted of marketable securities. Old Republic continues to adhere to its long-term policy of investing primarily in investment grade, marketable securities. The portfolio contains no significant insurance risk-correlated asset exposures to real estate, mortgage-backed securities, collateralized debt obligations ("CDO's"), derivatives, junk bonds, hybrid securities, or illiquid private equity investments. In a similar vein, the Company does not engage in hedging or securities lending transactions, nor does it invest in securities whose values are predicated on non-regulated financial instruments exhibiting amorphous or unfunded counter-party risk attributes. At March 31,

2011, the Company had no fixed maturity investments in default as to principal and/or interest.

Relatively high short-term maturity investment positions continued to be maintained as of March 31, 2011. Such positions reflect a large variety of seasonal and intermediate-term factors including current operating needs, expected operating cash flows, quarter-end cash flow seasonality, and investment strategy considerations. Accordingly, the future level of short-term investments will vary and respond to the interplay of these factors and may, as a result, increase or decrease from current levels.

The Company does not own or utilize derivative financial instruments for the purpose of hedging, enhancing the overall return of its investment portfolio, or reducing the cost of its debt obligations. With regard to its equity portfolio, the Company does not own any options nor does it engage in any type of option writing. Traditional investment management tools and techniques are employed to address the yield and valuation exposures of the invested assets base. The long-term fixed maturity investment portfolio is managed so as to limit various risks inherent in the bond market. Credit risk is addressed through asset diversification and the purchase of investment grade securities. Reinvestment rate risk is reduced by concentrating on non-callable issues, and by taking asset-liability matching considerations into account. Purchases of mortgage and asset backed securities, which have variable principal prepayment options, are generally avoided. Market value risk is limited through the purchase of bonds of intermediate maturity. The combination of these investment management practices is expected to produce a more stable long-term fixed maturity investment portfolio that is not subject to extreme interest rate sensitivity and principal deterioration.

The fair value of the Company's long-term fixed maturity investment portfolio is sensitive, however, to fluctuations in the level of interest rates, but not materially affected by changes in anticipated cash flows caused by any prepayments. The impact of interest rate movements on the long-term fixed maturity investment portfolio generally affects net unrealized gains or losses. As a general rule, rising interest rates enhance currently available yields but typically lead to a reduction in the fair value of existing fixed maturity investments. By contrast, a decline in such rates reduces currently available yields but usually serves to increase the fair value of the existing fixed maturity investment portfolio. All such changes in fair value are reflected, net of deferred income taxes, directly in the shareholders' equity account, and as a separate component of the statement of comprehensive income. Given the Company's inability to forecast or control the movement of interest rates, Old Republic sets the maturity spectrum of its fixed maturity securities portfolio within parameters of estimated liability payouts, and focuses the overall portfolio on high quality investments. By so doing, Old Republic believes it is reasonably assured of its ability to hold securities to maturity as it may deem necessary in changing environments, and of ultimately recovering their aggregate cost.

Possible future declines in fair values for Old Republic's bond and stock portfolios would negatively affect the common shareholders' equity account at any point in time, but would not necessarily result in the recognition of realized investment losses. 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 in the portfolio's value are evaluated and established at each quarterly balance sheet date. In reviewing investments for other-than-temporary impairment, 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 other-than-temporarily-impaired. In the event the Company's estimate of other-than-temporary impairments is insufficient at any point in time, future periods' net income (loss) would be affected adversely by the recognition of additional realized or impairment losses, but its financial condition would not necessarily be affected adversely inasmuch as such losses, or a portion of them, could have been recognized previously as unrealized losses.

The following tables show certain information relating to the Company's fixed maturity and equity portfolios as of the dates shown:

Credit Quality Ratings of Fixed Maturity Securities (a)

	March 31, 2011	December 31, 2010
Aaa	19.8%	21.3%
Aa	19.9	20.6
A	31.5	29.9
Baa	27.6	26.9
Total investment grade	98.8	98.7
All other (b)	1.2	1.3
Total	100.0%	100.0%

(a)

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Credit quality ratings used are those assigned primarily by Moody's for U.S. Governments, Agencies and Corporate issuers and by Standard & Poor's ("S&P") for U.S. and Canadian Municipal issuers, which are converted to equivalent Moody's ratings classifications.

(b) "All other" includes non-investment grade or non-rated issuers.

Gross Unrealized Losses Stratified by Industry Concentration for Non-Investment Grade Fixed Maturity Securities

	March 31, 2011	
	Amortized Cost	Gross Unrealized Losses
Fixed Maturity Securities by Industry Concentration:		
Banking	\$ 7.4	\$.1
Total	\$ 7.4(c)	\$.1

(c) Represents .09% of the total fixed maturity securities portfolio.

Gross Unrealized Losses Stratified by Industry Concentration for Investment Grade Fixed Maturity Securities

	March 31, 2011	
	Amortized Cost	Gross Unrealized Losses
Fixed Maturity Securities by Industry Concentration:		
Municipals	\$ 110.5	\$ 5.9
U.S. Governments and Agencies	202.3	4.1
Utilities	170.9	4.1
Industrials	71.5	1.9
Other (includes 17 industry groups)	708.0	10.4
Total	\$ 1,263.4(d)	\$ 26.6

(d) Represents 15.5% of the total fixed maturity securities portfolio.

Gross Unrealized Losses Stratified by Industry Concentration for Equity Securities

	March 31, 2011	
	Cost	Gross Unrealized Losses
Equity Securities by Industry Concentration:		
Health Care	\$ 6.3	\$.3
Utilities	4.8	-
Insurance	-	-
Total	\$ 11.2(e)	\$.3(f)

(e) Represents 2.8% of the total equity securities portfolio.

(f) Represents .1% of the adjusted cost of the total equity securities portfolio, while gross unrealized gains represent 65.7% of the portfolio.

Gross Unrealized Losses Stratified by Maturity Ranges for All Fixed Maturity Securities

	March 31, 2011			
	Amortized Cost of Fixed Maturity Securities		Gross Unrealized Losses	
	All	Non- Investment Grade Only	All	Non- Investment Grade Only
Maturity Ranges:				
Due in one year or less	\$ 57.3	\$ -	\$.1	\$ -
Due after one year through five years	461.3	7.4	6.6	.1
Due after five years through ten years	561.7	-	12.4	-
Due after ten years	190.4	-	7.3	-

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Total	\$	1,270.9	\$	7.4	\$	26.7	\$.1
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Gross Unrealized Losses Stratified by Duration and Amount of Unrealized Losses

	March 31, 2011 Amount of Gross Unrealized Losses			Total Gross Unrealized Loss
	Less than 20% of Cost	20% to 50% of Cost	More than 50% of Cost	
Number of Months in Loss Position:				
Fixed Maturity Securities:				
One to six months	\$ 26.3	\$ -	\$ -	\$ 26.3
Seven to twelve months	-	-	-	-
More than twelve months	.1	.2	-	.4
Total	\$ 26.4	\$.2	\$ -	\$ 26.7
Equity Securities:				
One to six months	\$.3	\$ -	\$ -	\$.3
Seven to twelve months	-	-	-	-
More than twelve months	-	-	-	-
Total	\$.3	\$ -	\$ -	\$.3
Number of Issues in Loss Position:				
Fixed Maturity Securities:				
One to six months	308	-	-	308
Seven to twelve months	1	-	-	1
More than twelve months	2	1	-	3
Total	311	1	-	312(g)
Equity Securities:				
One to six months	2	-	-	2
Seven to twelve months	-	-	-	-
More than twelve months	-	1	-	1
Total	2	1	-	3(g)

- (g) At March 31, 2011, the number of issues in an unrealized loss position represent 15.2% as to fixed maturities, and 7.1% as to equity securities of the total number of such issues held by the Company.

The aging of issues with unrealized losses is based on balance sheet date fair value comparisons with an issue's original cost net of other-than-temporary impairment adjustments. The percentage reduction from such adjusted cost reflects the decline as of a specific point in time (March 31, 2011 in the above table) and, accordingly, is not indicative of a security's value having been consistently below its cost at the percentages and throughout the periods shown.

Age Distribution of Fixed Maturity Securities

	March 31, 2011	December 31, 2010
Maturity Ranges:		
Due in one year or less	9.7%	10.5%
Due after one year through five years	51.8	52.2
Due after five years through ten years	35.3	34.6

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Due after ten years through fifteen years	1.3	1.3
Due after fifteen years	1.9	1.4
Total	100.0%	100.0%
Average Maturity in Years	4.7	4.6
Duration (h)	3.9	3.8

(h)Duration is used as a measure of bond price sensitivity to interest rate changes. A duration of 3.9 as of March 31, 2011 implies that a 100 basis point parallel increase in interest rates from current levels would result in a possible decline in the fair value of the long-term fixed maturity investment portfolio of approximately 3.9%.

Composition of Unrealized Gains (Losses)