

OLD REPUBLIC INTERNATIONAL CORP
Form 10-K
February 29, 2012

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

FORM 10-K

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(FEE REQUIRED)

For the fiscal year ended: December 31, 2011 OR

_ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(NO FEE REQUIRED)

For the transition period from _____ to _____

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of Each Exchange on Which Registered

Common Stock/\$1 par value

New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes: X/ No:

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes: / No: X

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: X/ 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: X/No:

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer x

Accelerated filer o

Non-accelerated filer o

Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes: /

No: X

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The aggregate fair value of the registrant's voting Common Stock held by non-affiliates of the registrant (assuming, for purposes of this calculation only, that the registrant's directors and executive officers, the registrant's various employee benefit plans and American Business & Personal Insurance Mutual, Inc. and its subsidiaries are all affiliates of the registrant), based on the closing sale price of the registrant's common stock on June 30, 2011, the last day of the registrant's most recently completed second fiscal quarter, was \$2,770,186,310.

The registrant had 259,328,278 shares of Common Stock outstanding as of January 31, 2012.

Documents incorporated by reference:

The following documents are incorporated by reference into that part of this Form 10-K designated to the right of the document title.

Title	Part
Proxy statement for the 2012 Annual Meeting of Shareholders	III, Items 10, 11, 12, 13 and 14
Exhibits as specified in exhibit index (page 113)	IV, Item 15

There are 114 pages in this report

PART I

Item 1 - Business

(a) **General Description of Business.** Old Republic International Corporation is a Chicago based holding company 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 (property and liability insurance), Mortgage Guaranty, and Title Insurance Groups. References herein to such groups apply to the Company's subsidiaries engaged in these respective segments of business. The results of a small life and health insurance business are included within the corporate and other caption of this report. "Old Republic" or "the Company" refers to Old Republic International Corporation and its subsidiaries as the context requires.

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 its subsidiaries' long-term obligations to insurance beneficiaries. To achieve these objectives, adherence to certain basic insurance risk management principles is stressed, and asset diversification and quality are emphasized. The underwriting principles encompass:

• Disciplined risk selection, evaluation, and pricing to reduce uncertainty and adverse selection;

• Augmenting the predictability of expected outcomes through insurance of the largest number of homogeneous risks as to each type of coverage;

• Reducing the insurance portfolio risk profile through:

• diversification and spread of insured risks; and

• assimilation of uncorrelated asset and liability exposures across economic sectors that tend to offset or counterbalance one another; and

• Effectively managing gross and net limits of liability through appropriate use of reinsurance.

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.

Effective October 1, 2010, Old Republic acquired PMA Capital Corporation ("PMA"), an insurance holding company with interests in the commercial property and liability insurance field. The consideration transferred of \$247.2 million included the issuance of 17,754,047 Old Republic common shares and the replacement value of PMA stock options. The financial statements and other data in this report include PMA's results of operations for the full year of 2011 and the final quarter of 2010. Assets and liabilities are included as of December 31, 2011 and 2010.

The contributions to consolidated net revenues and income before taxes, and the assets and shareholders' equity of each Old Republic segment are set forth in the following table. This information should be read in conjunction with the consolidated financial statements, the notes thereto, and the "Management Analysis of Financial Position and Results of Operations" appearing elsewhere in this report.

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Financial Information Relating to Segments of Business (a)

Net Revenues (b)	(\$ in Millions)		
Years Ended December 31:	2011	2010	2009
General	\$2,547.1	\$2,074.9	\$2,052.7
Mortgage Guaranty	506.1	588.4	746.1
Title	1,391.8	1,238.8	914.1
Corporate & Other - net (c)	143.7	145.8	138.1
Consolidated realized investment gains (losses)	115.5	109.1	6.3
Consolidation elimination adjustments	(58.8)	) (54.5)	) (53.8)
Consolidated	\$4,645.5	\$4,102.7	\$3,803.6
Income (Loss) Before Taxes			
Years Ended December 31:	2011	2010	2009
General	\$304.3	\$172.7	\$200.1
Mortgage Guaranty	(678.1)	) (260.8)	) (486.4)
Title	36.2	9.4	2.1
Corporate & Other - net (c)	(14.6)	) (2.8)	) 4.0
Consolidated realized investment gains (losses)	115.5	109.1	6.3
Consolidated	\$(236.7)	) \$27.6	) \$(273.6)
Assets			
As of December 31:	2011	2010	2009
General	\$12,384.3	\$12,189.8	\$9,920.8
Mortgage Guaranty	2,027.6	2,537.9	3,233.4
Title	956.2	915.0	852.8
Corporate & Other - net (c)	973.4	576.7	503.5
Consolidation elimination adjustments	(291.2)	) (336.8)	) (320.5)
Consolidated	\$16,050.4	\$15,882.7	\$14,190.0
Shareholders' Equity			
As of December 31:	2011	2010	2009
General (d)	\$2,952.9	\$2,846.8	\$2,548.2
Mortgage Guaranty (d)	16.2	441.1	581.7
Title (d)	323.0	300.6	288.6
Corporate & Other - net (c)	525.7	578.6	516.9
Consolidation elimination adjustments	(45.4)	) (45.8)	) (44.1)
Consolidated	\$3,772.5	\$4,121.4	\$3,891.4

Reference is made to the table in Note 6 of the Notes to Consolidated Financial Statements, incorporated herein by (a) reference, which shows the contribution of each subcategory to the consolidated net revenues and income or loss before income taxes of Old Republic's insurance industry segments.

(b) Revenues consist of net premiums, fees, net investment and other income earned; realized investment gains (losses) are shown in total for all groups combined since the investment portfolio is managed as a whole.

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

Shareholders' equity as shown in this schedule excludes intercompany financing arrangements for the following segments: General - \$469.4, \$334.6, and \$334.0 as of December 31, 2011, 2010, and 2009, respectively; Mortgage (d) - \$175.0 as of December 31, 2011 and \$150.0 as of December 31, 2010 and 2009; and Title - \$143.9, \$150.4, and \$139.9 as of December 31, 2011, 2010, and 2009, respectively.

General Insurance Group

Old Republic's General Insurance segment is best characterized as a commercial lines insurance business with a strong focus on liability insurance coverages. Most of these coverages are provided to businesses, government, and other institutions. The Company does not have a meaningful exposure to personal lines insurance such as homeowners and private automobile coverages, nor does it insure significant amounts of commercial or other real property. In continuance of its commercial lines orientation, Old Republic also focuses on specific sectors of the North American economy, most prominently the transportation (trucking and general aviation), commercial construction, healthcare, education, retail and wholesale, forest products, energy, general manufacturing, and financial services industries. In managing the insurance risks it undertakes, the Company employs various underwriting and loss mitigation techniques such as utilization of policy deductibles, captive insurance risk-sharing arrangements, and retrospective rating and policyholder dividend plans. These underwriting techniques are intended to better correlate premium charges with the ultimate claims experience pertaining to individual or groups of assureds.

Over the years, the General Insurance Group's operations have been developed steadily through a combination of internal growth, the establishment of additional subsidiaries focused on new types of coverages and/or industry sectors, and through several mergers of smaller companies. As a result, this segment has become widely diversified with a business base encompassing the following major coverages:

Automobile Extended Warranty Insurance (1992): Coverage is provided to the vehicle owner for certain mechanical or electrical repair or replacement costs after the manufacturer's warranty has expired.

Aviation (1983): Insurance policies protect the value of aircraft hulls and afford liability coverage for acts that result in injury, loss of life, and property damage to passengers and others on the ground or in the air. Old Republic's aviation business does not extend to commercial airlines.

Commercial Automobile Insurance (1930's): Covers vehicles (mostly trucks) used principally in commercial pursuits. Policies cover damage to insured vehicles and liabilities incurred by an assured for bodily injury and property damage sustained by third parties.

Commercial Multi-Peril ("CMP")(1920's): Policies afford liability coverage for claims arising from the acts of owners or employees, and protection for the physical assets of large businesses.

Financial Indemnity: Multiple types of specialty coverages, including most prominently the following five, are underwritten by Old Republic within this financial indemnity products classification.

Consumer Credit Indemnity ("CCI")(1955): Policies provide limited indemnity coverage to lenders and other financial intermediaries. The coverage is for the risk of non-payment of loan balances by individual buyers and borrowers.

Claim costs are typically affected by unemployment, bankruptcy, and other issues leading to failures to pay.

Errors & Omissions("E&O")/Directors & Officers ("D&O")(1983): E&O liability policies are written for non-medical professional service providers such as lawyers, architects and consultants, and provides coverage for legal expenses, and indemnity settlements for claims alleging breaches of professional standards. D&O coverage provides for the payment of legal expenses, and indemnity settlements for claims made against the directors and officers of corporations from a variety of sources, most typically shareholders.

Fidelity (1981): Bonds cover the exposures of financial institutions and commercial and other enterprises for losses of monies or debt and equity securities due to acts of employee dishonesty.

Guaranteed Asset Protection ("GAP")(2003): This insurance covers an automobile loan borrower for the dollar value difference between an insurance company's liability for the total loss (remaining cash value) of an insured vehicle and the amount still owed on an automobile loan.

Surety (1981): Bonds are insurance company guarantees of performance by a corporate principal or individual such as for the completion of a building or road project, or payment on various types of contracts.

General Liability (1920's): Protects against liability of an assured which stems from carelessness, negligence, or failure to act, and results in property damage or personal injury to others.

Home Warranty Insurance (1981): This product provides repair and/or replacement coverage for home systems (e.g. plumbing, heating, and electrical) and designated appliances.

Inland Marine (1920's): Coverage pertains to the insurance of property in transit over land and of property which is mobile by nature.

Travel Accident (1970): Coverages provided under these policies, some of which are also underwritten by the Company's Canadian life insurance affiliate, cover monetary losses arising from trip delay and cancellation for individual insureds.

Workers' Compensation (1910's): This coverage is purchased by employers to provide insurance for employees' lost wages and medical benefits in the event of work-related injury, disability, or death.

(Parenthetical dates refer to the year(s) when Old Republic's Companies began underwriting the coverages)

Commercial automobile, general liability and workers' compensation insurance are typically produced in tandem for many assureds. For 2011, production of workers' compensation direct insurance premiums accounted for approximately 33.3% of consolidated General Insurance Group direct premiums written, while commercial automobile and general liability direct premium production amounted to approximately 28.3% and 10.4%, respectively, of such consolidated totals.

Approximately 87% of general insurance premiums are produced through independent agency or brokerage channels, while the remaining 13% is obtained through direct production facilities.

Mortgage Guaranty Group

Private mortgage insurance protects mortgage lenders and investors from default related losses on residential mortgage loans made primarily to homebuyers who make down payments of less than 20% of the home's purchase price. The Mortgage Guaranty Group insures only first mortgage loans, primarily on residential properties incorporating one-to-four family dwelling units. Old Republic's mortgage guaranty business was started in 1973.

There are two principal types of private mortgage insurance coverage: "primary" and "pool". Primary mortgage insurance provides mortgage default protection on individual loans and covers a stated percentage of the unpaid loan principal, delinquent interest, and certain expenses associated with the default and subsequent foreclosure. In lieu of paying the stated coverage percentage, the Company may pay the entire claim amount, take title to the mortgaged property, and subsequently sell the property to mitigate its loss. Pool insurance, which is written on a group of loans in negotiated transactions, provides coverage that ranges up to 100% of the net loss on each individual loan included in the pool, subject to provisions regarding deductibles, caps on individual exposures, and aggregate stop loss provisions which limit aggregate losses to a specified percentage of the total original balances of all loans in the pool.

Traditional primary insurance is issued on an individual loan basis to mortgage bankers, brokers, commercial banks and savings institutions through a network of Company-managed underwriting sites located throughout the country. Traditional primary loans are individually reviewed (except for loans insured under delegated approval programs) and priced according to filed premium rates. In underwriting traditional primary business, the Company generally adheres to the underwriting guidelines published by the Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac") or the Federal National Mortgage Association ("FNMA" or "Fannie Mae"), purchasers of many of the loans the Company insures. Delegated underwriting programs allow approved lenders to commit the Company to insure loans provided they adhere to predetermined underwriting guidelines.

Bulk and other insurance is issued on groups of loans to mortgage banking customers through a centralized risk assessment and underwriting department. These groups of loans are priced in the aggregate, on a bid or negotiated basis. Coverage for insurance issued in this manner can be provided through primary insurance policies (loan level coverage) or pool insurance policies (aggregate coverage). The Company considers transactions designated as bulk insurance to be exposed to higher risk (as determined by characteristics such as origination channel, loan amount, credit quality, and loan documentation) than those designated as other insurance.

Before insuring any loans, the Company issues to each approved customer a master policy outlining the terms and conditions under which coverage will be provided. Primary business is then executed via the issuance of a commitment/certificate for each loan submitted and approved for insurance. In the case of business providing pool coverage, a separate pool insurance policy is issued covering the particular loans applicable to each transaction.

As to all types of mortgage insurance products, the amount of premium charge depends on various underwriting criteria such as loan-to-value ratios, the level of coverage being provided, the borrower's credit history, the type of loan instrument (whether fixed rate/fixed payment or an adjustable rate/adjustable payment), documentation type, and whether or not the insured property is categorized as an investment or owner occupied property. Coverage is

non-cancelable by the Company (except in the case of non-payment of premium or certain master policy violations) and premiums are paid under single, annual, or monthly payment plans. Single premiums are paid at the inception of coverage and provide coverage for the entire policy term. Annual and monthly premiums are renewable on their anniversary dates with the premium charge determined on the basis of the original or outstanding loan amount. The majority of the Company's direct premiums are written under monthly premium plans. Premiums may be paid by borrowers as part of their monthly mortgage payment and passed through to the Company by the servicer of the loan or they may be paid directly by the originator of, or investor in the mortgage loan.

As noted in prior periods' reports, the Company's flagship mortgage guaranty insurance carrier ("RMIC") had been operating pursuant to a waiver of minimum state regulatory capital requirement since late 2009. This waiver expired on August 31, 2011. As a consequence, underwriting of new policies ceased and the existing book of business was placed in run-off operating mode. In this run-off situation, RMIC collects renewal premiums, participates in industry modification activities, and pays valid claims on policies in force as of August 31, 2011. No new business has been written since the latter date.

On January 19, 2012 the North Carolina Department of Insurance ("NCDOI") issued an Order of Supervision ("Order") providing for its immediate administrative supervision of RMIC's run-off operations. The Order responds to the capital depletion at RMIC caused by an unprecedented level of losses experienced industry-wide.

Supervision is an administrative proceeding under North Carolina law. It gives the NCDOI more oversight and control with the objective of allowing the insurer to develop a corrective plan subject to the Department's approval. It is unlike

receivership which involves rehabilitation or liquidation of a company pursuant to a formal, court-ordered proceeding. Receivership results in a company's assets and management passing to a receiver who is overseen by a court. Moreover, supervision, unlike receivership, does not constitute an event of default by RMIC or its parent holding company with regard to any of their respective debt obligations.

Under the Order, RMIC continues to manage the business through its employees, and retains its status as a wholly-owned subsidiary of its ultimate parent holding company, Old Republic International Corporation. The Order specifies that RMIC may not engage in certain activities and transactions without the prior written approval of the NCDOI Commissioner or his appointed representative for supervision. Most significantly, the Company may not enter into material transactions, may not incur any debt or other liabilities, may not lend any of its funds, and may not terminate or enter into new contracts of insurance or reinsurance without approval.

The primary impact on policyholders and their beneficiaries is the Order's requirement that RMIC may not pay more than fifty percent of any claims allowed under any policy of insurance it has issued. The remaining fifty percent is to be deferred and credited to a temporary statutory surplus account on the books of RMIC during an initial period not to exceed one year. Accordingly, all claim payments made on January 19, 2012 and thereafter are to be made at the rate of fifty percent.

Title Insurance Group

Old Republic's title insurance business was founded in Minnesota in 1907. The business consists primarily of the issuance of policies to real estate purchasers and investors based upon searches of the public records, which contain information concerning interests in real property. The policy insures against losses arising out of defects, liens and encumbrances affecting the insured title and not excluded or excepted from the coverage of the policy. For the year ended December 31, 2011, approximately 33% of the Company's consolidated title premium and related fee income stemmed from direct operations (which include branch offices of its title insurers and wholly owned subsidiaries of the Company), while the remaining 67% emanated from independent title agents and underwritten title companies.

There are two basic types of title insurance policies: lenders' policies and owners' policies. Both are issued for a one-time premium. Most mortgages made in the United States are extended by mortgage bankers, savings and commercial banks, state and federal agencies, and life insurance companies. The financial institutions secure title insurance policies to protect their mortgagees' interest in the real property. This protection remains in effect for as long as the mortgagee has an interest in the property. A separate title insurance policy may be issued to the owner of the real estate. An owner's policy of title insurance protects an owner's interest in the title to the property.

The premiums charged for the issuance of title insurance policies vary with the policy amount and the type of policy issued. The premium is collected in full when the real estate transaction is closed, there being no recurring fee thereafter. In many areas, premiums charged on subsequent policies on the same property may be reduced depending generally upon the time elapsed between issuance of the previous policies and the nature of the transactions for which the policies are issued. Most of the charge to the customer relates to title services rendered in conjunction with the issuance of a policy rather than to the possibility of loss due to risks insured against. Accordingly, the cost of service performed by a title insurer relates for the most part to the prevention of loss rather than to the assumption of the risk of loss. Claim losses that do occur result primarily from title search and examination mistakes, fraud, forgery, incapacity, missing heirs and escrow processing errors.

In connection with its title insurance operations, Old Republic also provides escrow closing and construction disbursement services, as well as real estate information products, national default management services, and services pertaining to real estate transfers and loan transactions.

Corporate and Other Operations

Corporate and other operations include the accounts of a small life and health insurance business as well as those of the parent holding company and several minor corporate services subsidiaries that perform investment management, payroll, administrative and minor marketing services.

The Company's small life and health business registered 2011 and 2010 net premium revenues of \$74.9 million and \$81.4 million, respectively. This business is conducted in both the United States and Canada and consists mostly of limited product offerings sold through financial intermediaries such as automobile dealers, travel agents, and marketing channels that are also utilized in some of Old Republic's general insurance operations. Production of term life insurance, accounting for net premiums earned of \$15.1 million in 2011 and \$17.0 million in 2010, was terminated and placed in run off as of year end 2004.

Consolidated Underwriting Statistics

The following table reflects underwriting statistics covering premiums and related loss, expense, and policyholders' dividend ratios for the major coverages underwritten in the Company's insurance segments.

	(\$ in Millions)			
	Years Ended December 31,			
	2011	2010	2009	
General Insurance Group:				
Overall Experience:				
Net Premiums Earned	\$2,167.7	\$1,782.1	\$1,782.5	
Claim Ratio	70.6	% 75.7	% 75.9	%
Policyholders' Dividend Benefit	.7	.7	.4	
Expense Ratio	25.6	26.6	25.8	
Composite Ratio	96.9	% 103.0	% 102.1	%
Experience by Major Coverages:				
Commercial Automobile (Principally Trucking):				
Net Premiums Earned	\$709.0	\$676.3	\$652.8	
Claim Ratio	71.8	% 72.8	% 71.3	%
Workers' Compensation:				
Net Premiums Earned	\$808.2	\$447.9	\$387.3	
Claim Ratio	70.6	% 69.0	% 73.9	%
Policyholders' Dividend Benefit	1.7	% 1.7	% 1.0	%
General Liability:				
Net Premiums Earned	\$125.0	\$113.7	\$143.2	
Claim Ratio	64.6	% 64.3	% 65.3	%
Three Above Coverages Combined:				
Net Premiums Earned	\$1,642.4	\$1,237.9	\$1,183.5	
Claim Ratio	70.7	% 70.7	% 71.4	%
Financial Indemnity: (a)				
Net Premiums Earned	\$162.7	\$199.9	\$241.5	
Claim Ratio	77.3	% 126.9	% 117.8	%
Inland Marine and Commercial Multi-Peril:				
Net Premiums Earned	\$163.9	\$158.3	\$168.8	
Claim Ratio	70.2	% 61.8	% 61.4	%
Home and Automobile Warranty:				
Net Premiums Earned	\$150.7	\$146.8	\$141.6	
Claim Ratio	66.3	% 71.5	% 65.2	%
Other Coverages: (b)				
Net Premiums Earned	\$49.5	\$35.7	\$50.7	
Claim Ratio	52.1	% 48.9	% 45.8	%

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Mortgage Guaranty Group:					
Net Premiums Earned	\$444.9		\$498.8		\$644.5
Claim Ratio	237.6	%	153.6	%	176.0 %
Expense Ratio	23.9		14.4		12.6
Composite Ratio	261.5	%	168.0	%	188.6 %
Title Insurance Group: (c)					
Net Premiums Earned	\$1,007.9		\$863.0		\$611.0
Combined Net Premiums & Fees Earned	\$1,362.4		\$1,211.0		\$888.4
Claim Ratio	7.8	%	8.0	%	7.9 %
Expense Ratio	91.2		93.0		93.8
Composite Ratio	99.0	%	101.0	%	101.7 %
All Coverages Consolidated:					
Net Premiums & Fees Earned	\$4,050.1		\$3,573.5		\$3,388.9
Claim and Benefit Ratio	67.8	%	63.4	%	76.7 %
Expense Ratio	48.0		48.0		41.8
Composite Ratio	115.8	%	111.4	%	118.5 %

Any necessary reclassifications of prior years' data are reflected in the above table to conform to current presentation.

- (a) Consists principally of fidelity, surety, consumer credit indemnity, executive indemnity (directors & officers and errors & omissions), and guaranteed asset protection (GAP) coverages.
- (b) Consists principally of aviation and travel accident coverages.
- (c) Title claim, expense, and composite ratios are calculated on the basis of combined net premiums and fees earned.

General insurance premiums increased in 2011 reflecting the addition of \$412.4 million of PMA premiums during the year. Excluding the PMA premiums, the remainder of general insurance net premiums earned reflected growth of approximately 4.5% during 2011. The Company estimates that the combination of ongoing recessionary economic conditions and a generally soft pricing environment in the commercial insurance arena has generally constrained premium growth. However, during the past twelve months or so, premium rates have strengthened gradually and to varying degrees in certain parts of the Company's general insurance business. 2010 general insurance premiums include \$103.7 million contributed by the PMA merger in the fourth quarter.

Mortgage guaranty earned premium levels continued to decline during 2011. The reduction stemmed from lower volumes of new insurance written, a continuation of elevated levels of premium refunds related to claims rescissions, the termination of certain pool insurance contracts in 2010, and the termination of new insurance underwriting effective August 31, 2011. Moreover, new business volume prior to August 31, 2011 reflected continued weakness from the downturn in overall mortgage originations, lower industry-wide penetration of the nation's current mortgage market, and the continuing effects of more selective underwriting guidelines in place since late 2007. Largely non-recurring captive reinsurance commutations contributed \$13.6 million and \$82.5 million of additional premiums covering future losses during 2010 and 2009, respectively. No similarly significant transactions occurred during 2011.

Title insurance premiums and fees continued to increase in 2011 mostly due to market share gains emanating from title industry dislocations and consolidation during the past three years.

Variations in claim ratios are typically caused by changes in the frequency and severity of claims incurred, changes in premium rates and the level of premium refunds, and periodic changes in claim and claim expense reserve estimates resulting from ongoing reevaluations of reported and incurred but not reported claims and claim expenses. As demonstrated in the above table, the Company can therefore experience period-to-period volatility in the underwriting results posted for individual coverages. In light of the Company's basic underwriting focus in managing its business, a long-term objective has been to dampen this volatility by diversifying the coverages it offers and the industries it serves.

The claim ratios include loss adjustment expenses where appropriate. Policyholders' dividends, which apply principally to workers' compensation insurance, are a reflection of changes in loss experience for individual or groups of policies, rather than overall results, and should be viewed in conjunction with loss ratio trends.

Excluding the impact of Old Republic's consumer credit indemnity ("CCI") business discussed below, the overall general insurance claim ratio shows reasonably consistent trends for all periods reported upon. To a large extent, this major cost factor reflects pricing and risk selection improvements that have been applied since 2001, together with elements of reduced loss severity and frequency. Changes in commercial automobile claim ratios are primarily due to fluctuations in claim frequencies. Loss ratios for workers' compensation and liability insurance may reflect greater variability due to chance events in any one year, changes in loss costs emanating from participation in involuntary markets (i.e. insurance assigned risk pools and associations in which participation is basically mandatory), and added provisions for loss costs not recoverable from assuming reinsurers which may experience financial difficulties from time to time. Additionally, workers' compensation claim costs in particular are affected by a variety of underwriting techniques such as the use of captive reinsurance retentions, retrospective premium plans, and self-insured or deductible insurance programs that are intended to mitigate claim costs over time. Claim ratios for a relatively small book of general liability coverages tend to be highly volatile year to year due to the impact of changes in claim

emergence and severity of legacy asbestos and environmental claims exposures.

The Company generally underwrites concurrently workers' compensation, commercial automobile (liability and physical damage), and general liability insurance coverages for a large number of customers. Given this concurrent underwriting approach, an evaluation of trends in premiums, claim and dividend ratios for these individual coverages is more appropriately considered in the aggregate.

The higher claim ratio for financial indemnity coverages in the periods shown was driven principally by greater claim frequencies experienced in Old Republic's CCI coverage. These higher claim ratios added 2.1, 8.6 and 7.3 percentage points, respectively, to the 2011, 2010 and 2009 general insurance overall claim ratio, respectively.

Mortgage guaranty claim ratios have continued at high levels in recent periods. These ratios have risen principally as a result of higher reserve provisions and paid losses. Greater reserve provisions have resulted from higher levels of reported delinquencies emanating from the downturn in the national economy, widespread stress in housing and mortgage finance markets, and increased unemployment. Trends in expected and actual claim frequency and severity have been impacted to varying degrees by several factors including, but not limited to, significant declines in home prices which limit a troubled borrower's ability to sell the mortgaged property in an amount sufficient to satisfy the remaining debt obligation; more restrictive mortgage lending standards which limit a borrower's ability to refinance the loan; increases in housing supply relative to recent demand; historically high levels of coverage rescissions and claim denials as a result of material misrepresentation in key underwriting information or non-compliance with prescribed underwriting guidelines; and changes in claim settlement costs. The latter are influenced by the amount of unpaid principal outstanding on delinquent loans as well as the rising expenses of settling claims due to higher investigation

costs, legal fees, and accumulated interest expenses. Recurring claim costs for 2011 increased in comparison with 2010. While newly reported defaults continued in a downtrend, other offsetting factors led to these higher costs. The combination of higher claim payments and reduced levels of actual and estimated claim rescissions or denials on new and previously reported defaults is most accountable for the upward pressure on 2011 incurred claim costs. Captive reinsurance and pool insurance contract terminations had the effect of lowering the 2010 and 2009 ratios from 168.6% and 201.8% to 153.6% and 176.0%, respectively.

Title insurance loss ratios have remained in the single digits for a number of years due to a continuation of favorable trends in claims frequency and severity for business underwritten since 1992 in particular. Though still reasonably contained, claim ratios have risen in the three most recent years, by comparison to historical trends, due to the continuing downturn and economic stresses in the housing and related mortgage lending industries.

The consolidated claim, expense, and composite ratios reflect all the above factors and the changing period-to-period contributions of each segment to consolidated results.

General Insurance Claim Reserves

The Company's property and liability insurance subsidiaries establish claim reserves which consist of estimates to settle: a) reported claims; b) claims which have been incurred as of each balance sheet date but have not as yet been reported ("IBNR") to the insurance subsidiaries; and c) the direct costs, (fees and costs which are allocable to individual claims) and indirect costs (such as salaries and rent applicable to the overall management of claim departments) to administer known and IBNR claims. Such claim reserves, except as to classification in the Consolidated Balance Sheets as to gross and reinsured portions and purchase accounting adjustments, are reported for financial and regulatory reporting purposes at amounts that are substantially the same.

The establishment of claim reserves by the Company's insurance subsidiaries is a reasonably complex and dynamic process influenced by a large variety of factors. These factors principally include past experience applicable to the anticipated costs of various types of claims, continually evolving and changing legal theories emanating from the judicial system, recurring accounting, statistical, and actuarial studies, the professional experience and expertise of the Company's claim departments' personnel or attorneys and independent claim adjusters, ongoing changes in claim frequency or severity patterns such as those caused by natural disasters, illnesses, accidents, work-related injuries, and changes in general and industry-specific economic conditions. Consequently, the reserves established are a reflection of the opinions of a large number of persons, of the application and interpretation of historical precedent and trends, of expectations as to future developments, and of management's judgment in interpreting all such factors. At any point in time, the Company is exposed to possibly higher or lower than anticipated claim costs due to all of these factors, and to the evolution, interpretation, and expansion of tort law, as well as the effects of unexpected jury verdicts.

In establishing claim reserves, the possible increase in future loss settlement costs caused by inflation is considered implicitly, along with the many other factors cited above. Reserves are generally set to provide for the ultimate cost of all claims. With regard to workers' compensation reserves, however, the ultimate cost of long-term disability or pension type claims is discounted to present value based on interest rates ranging from 3.5% to 4.0%. The Company, where applicable, uses only such discounted reserves in evaluating the results of its operations, in pricing its products and settling retrospective and reinsured accounts, in evaluating policy terms and experience, and for other general business purposes. Solely to comply with reporting rules mandated by the Securities and Exchange Commission, however, Old Republic has made statistical studies of applicable workers' compensation reserves to obtain estimates of the amounts by which claim and claim adjustment expense reserves, net of reinsurance, have been discounted. These studies have resulted in estimates of such amounts at \$235.1 million, \$231.0 million and \$143.9 million, as of December 31, 2011, 2010 and 2009, respectively. It should be noted, however, that these differences between discounted and non-discounted (terminal) reserves are fundamentally of an informational nature, and are not

indicative of an effect on operating results for any one or series of years for the above noted reasons.

Early in 2001, the Federal Department of Labor revised the Federal Black Lung Program regulations. The revisions basically require a reevaluation of previously settled, denied, or new occupational disease claims in the context of newly devised, more lenient standards when such claims are resubmitted. Following a number of challenges and appeals by the insurance and coal mining industries, the revised regulations were, for the most part, upheld in June, 2002 and are to be applied prospectively. Since the final quarter of 2001, black lung claims filed or refiled pursuant to these revised regulations have increased, though the volume of new claim reports has abated in recent years. In March 2010, federal regulations were revised once again as part of the Patient Protection and Affordability Act that reinstates two provisions that potentially benefit claimants. In response to this most recent legislation and similar to the 2001 change, black lung claims filed or refiled have again increased. The vast majority of claims filed to date against Old Republic pertain to business underwritten through loss sensitive programs that permit the charge of additional or refund of return premiums to wholly or partially offset changes in estimated claim costs, or to business underwritten as a service carrier on behalf of various industry-wide involuntary market (i.e. assigned risk) pools. A much smaller portion pertains to business produced on a traditional risk transfer basis. The Company has established applicable reserves for claims as they have been reported and for claims not as yet reported on the basis of its historical experience as well as assumptions relative to the effect of the revised regulations. Inasmuch as a variety of challenges are likely as the revised regulations are implemented through the actual claim settlement process, the potential impact on reserves, gross and net of reinsurance or retrospective premium adjustments, resulting from such regulations cannot be estimated with reasonable certainty.

Old Republic's reserve estimates also include provisions for indemnity and settlement costs for various asbestosis

and environmental impairment ("A&E") claims that have been filed in the normal course of business against a number of its insurance subsidiaries. Many such claims relate to policies issued prior to 1985, including many issued during a short period between 1981 and 1982 pursuant to an agency agreement canceled in 1982. Over the years, the Company's property and liability insurance subsidiaries have typically issued general liability insurance policies with face amounts ranging between \$1.0 million and \$2.0 million and rarely exceeding \$10.0 million. Such policies have, in turn, been subject to reinsurance cessions which have typically reduced the subsidiaries' net retentions to \$.5 million or less as to each claim. Old Republic's exposure to A&E claims cannot, however, be calculated by conventional insurance reserving methods for a variety of reasons, including: a) the absence of statistically valid data inasmuch as such claims typically involve long reporting delays and very often uncertainty as to the number and identity of insureds against whom such claims have arisen or will arise; and b) the litigation history of such or similar claims for insurance industry members which has produced inconsistent court decisions with regard to such questions as to when an alleged loss occurred, which policies provide coverage, how a loss is to be allocated among potentially responsible insureds and/or their insurance carriers, how policy coverage exclusions are to be interpreted, what types of environmental impairment or toxic tort claims are covered, when the insurer's duty to defend is triggered, how policy limits are to be calculated, and whether clean-up costs constitute property damage. Over time, the Executive Branch and/or the Congress of the United States have proposed or considered changes in the legislation and rules affecting the determination of liability for environmental and asbestosis claims. As of December 31, 2011, however, there is no solid evidence to suggest that possible future changes might mitigate or reduce some or all of these claim exposures. Because of the above issues and uncertainties, estimation of reserves for losses and allocated loss adjustment expenses for A&E claims in particular is much more difficult or impossible to quantify with a high degree of precision. Accordingly, no representation can be made that the Company's reserves for such claims and related costs will not prove to be overstated or understated in the future. At December 31, 2011 and 2010, Old Republic's aggregate indemnity and loss adjustment expense reserves specifically identified with A&E exposures amounted to approximately \$182.0 million and \$195.7 million gross, respectively, and \$137.9 million and \$144.9 million net of reinsurance, respectively. Based on average annual claims payments during the five most recent calendar years, such reserves represented 5.9 years (gross) and 9.4 years (net of reinsurance) as of December 31, 2011 and 5.9 years (gross) and 10.0 years (net of reinsurance) as of December 31, 2010. The survival ratios are presented on a pro forma basis (unaudited) as if PMA had been consolidated with ORI for all periods. Fluctuations in this ratio between years can be caused by the inconsistent pay out patterns associated with these types of claims. For the five years ended December 31, 2011, incurred A&E claim and related loss settlement costs have averaged .2% of average annual General Insurance Group claims and related settlement costs.

Over the years, the subject of property and liability insurance claim reserves has been written about and analyzed extensively by a large number of professionals and regulators. Accordingly, the above discussion summary should, of necessity, be regarded as a basic outline of the subject and not as a definitive presentation. The Company believes that its overall reserving practices have been consistently applied over many years, and that its aggregate reserves have generally resulted in reasonable approximations of the ultimate net costs of claims incurred. However, no representation is made nor is any guaranty given that ultimate net claim and related costs will not develop in future years to be greater or lower than currently established reserve estimates.

The following table shows the evolving redundancies or deficiencies for reserves established as of December 31, of each of the years 2001 through 2011.

	(\$ in Millions)											
(a) As of December 31(6):	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	
Liability (1) for unpaid												
claims												
(b) and claim adjustment expenses(2):	\$3,769	\$3,779	\$3,229	\$3,222	\$3,175	\$2,924	\$2,414	\$2,182	\$1,964	\$1,802	\$1,678	
(c) Paid (cumulative) as of (3):												
One year later	—	%24.9	%25.7	%27.3	%28.4	%25.0	%15.6	%25.5	%24.7	%23.4	%23.1	%
Two years later	—	—	38.1	40.6	42.8	40.7	32.0	34.1	39.2	38.4	37.0	
Three years later	—	—	—	49.3	51.1	50.6	43.5	44.8	44.4	48.1	47.3	
Four years later	—	—	—	—	56.9	56.1	51.1	51.9	50.9	50.8	53.6	
Five years later	—	—	—	—	—	60.4	55.0	57.4	55.9	55.1	54.8	
Six years later	—	—	—	—	—	—	58.8	60.0	60.1	59.0	58.1	
Seven years later	—	—	—	—	—	—	—	63.0	62.0	62.6	61.4	
Eight years later	—	—	—	—	—	—	—	—	64.9	64.0	64.5	
Nine years later	—	—	—	—	—	—	—	—	—	66.7	65.8	
Ten years later	—	%—	%—	%—	%—	%—	%—	%—	%—	%—	%68.3	%
Liability reestimated (i.e.,												
(d) cumulative payments plus reestimated ending liability) As of (4):												
One year later	—	%96.1	%97.6	%98.2	%97.4	%96.2	%95.2	%97.6	%97.2	%98.6	%99.6	%
Two years later	—	—	94.6	95.1	94.9	94.3	92.3	94.8	97.0	98.2	101.3	
Three years later	—	—	—	93.1	92.5	92.4	90.4	93.3	95.6	99.7	102.7	
Four years later	—	—	—	—	90.9	90.2	88.4	92.2	95.7	100.4	105.8	
Five years later	—	—	—	—	—	89.0	87.3	91.6	95.6	100.6	106.7	
Six years later	—	—	—	—	—	—	86.6	91.1	95.5	101.0	107.3	
Seven years later	—	—	—	—	—	—	—	90.5	95.5	101.1	107.8	
Eight years later	—	—	—	—	—	—	—	—	95.6	101.5	108.0	
Nine years later	—	—	—	—	—	—	—	—	—	101.8	108.5	
Ten years later	—	%—	%—	%—	%—	%—	%—	%—	%—	%—	%108.9	%
Redundancy (deficiency)(5)	—	%3.9	%5.4	%6.9	%9.1	%11.0	%13.4	%9.5	%4.4	%(1.8	%(8.9)%
for each year-end												
Average redundancy (deficiency) for all year-ends	6.0	%										

(1) Amounts are reported net of reinsurance.

(2) Excluding unallocated loss adjustment expense reserves.

(3)

Percent of most recent reestimated liability (line d). Decreases in paid loss percentages may at times reflect the reassumption by the Company of certain previously ceded loss reserves from assuming reinsurers through commutations of then existing reserves.

- (4) Percent of beginning liability (line b) for unpaid claims and claim adjustment expenses.
- (5) Beginning liability less the most current liability reestimated (line d) as a percent of beginning liability (line b).
- (6) Historical data in the above table excludes amounts pertaining to PMA whose merger with Old Republic became effective October 1, 2010. Such PMA reserves have therefore been reflected from December 31, 2010 forward.

In reviewing the preceding tabular data, it should be noted that prior periods' loss payment and development trends may not be repeated in the future due to the large variety of factors influencing the reserving and settlement processes outlined herein above. The reserve redundancies or deficiencies shown for all years are not necessarily indicative of the effect on reported results of any one or series of years since cumulative retrospective premium and commission adjustments employed in various parts of the Company's business may partially offset such effects. The moderately deficient development of reserves at year-ends 2001 and 2002 pertain mostly to claims incurred in prior accident years, generally for business written in the 1980's. (See "Consolidated Underwriting Statistics" above, and "Reserves, Reinsurance, and Retrospective Adjustments" elsewhere herein).

The following table shows an analysis of changes in aggregate reserves for the Company's property and liability insurance claims and allocated claim adjustment expenses for each of the years shown:

	(\$ in Millions)										
	Years Ended December 31,										
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
(a) Beginning net reserves	\$3,779	\$3,819	*\$3,222	\$3,175	\$2,924	\$2,414	\$2,182	\$1,964	\$1,802	\$1,678	\$1,661
Incurred claims and claim expenses:											
(b) Current year provision	1,582	1,351	1,343	1,452	1,490	1,295	1,191	1,070	893	814	749
(c) Change in prior years' provision	(149)	(76)	(56)	(83)	(110)	(116)	(52)	(55)	(25)	(7)	(44)
(d) Total incurred	1,432	1,275	1,287	1,369	1,379	1,179	1,138	1,014	868	807	704
Claim payments on:											
(e) Current years' events	537	529	460	502	476	342	402	332	277	260	269
(f) Prior years' events	905	786	818	820	652	326	504	463	428	423	418
(g) Total payments	1,442	1,315	1,279	1,323	1,128	668	907	796	706	683	687
(h) Ending net reserves (a + d - g)	3,769	3,779	3,229	3,222	3,175	2,924	2,414	2,182	1,964	1,802	1,678
(i) Unallocated loss adjustment expense reserves	137	149	104	104	103	97	92	87	83	78	76
(j) Reinsurance recoverable on claims reserves	2,827	2,825	2,046	2,020	1,976	1,929	1,894	1,632	1,515	1,363	1,261
(k) Gross claims reserves (h + i + j)	\$6,733	\$6,753	\$5,380	\$5,346	\$5,256	\$4,951	\$4,401	\$3,902	\$3,562	\$3,244	\$3,016

(*). Includes reserves acquired through the PMA merger.

(b) Investments. In common with other insurance organizations, Old Republic invests most capital and operating funds in income producing securities. Investments must comply with applicable insurance laws and regulations which prescribe the nature, form, quality, and relative amounts of investments which may be made by insurance companies. Generally, these laws and regulations permit insurance companies to invest within varying limitations in state, municipal and federal government obligations, corporate debt, preferred and common stocks, certain types of real estate, and first mortgage loans. For many years, Old Republic's investment policy has therefore been to acquire and retain primarily investment grade, publicly traded, fixed maturity securities. The investment policy is also influenced by the terms of the insurance coverages written, by its expectations as to the timing of claim and benefit payments, and by income tax considerations. As a consequence of all these factors, the Company's invested assets are managed in consideration of enterprise-wide risk management objectives intended to assure solid funding of its subsidiaries' long-term obligations to insurance policyholders and other beneficiaries, as well as evaluations of their long-term effect on stability of capital accounts. Accordingly, 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 transactions or securities lending operations, nor does it invest in securities whose values are predicated on non-regulated financial instruments exhibiting amorphous or unfunded counter-party risk attributes. The Company does not have any exposure to European sovereign debt instruments.

Management considers investment grade securities to be those rated by Standard & Poor's Corporation ("Standard & Poor's") or Moody's Investors Service, Inc. ("Moody's") that fall within the top four rating categories, or securities which are not rated but have characteristics similar to securities so rated. The Company had no bond or note investments in default as to principal and/or interest at December 31, 2011 and 2010. The status and fair value changes of each investment is reviewed on at least a quarterly basis, and estimates of other-than-temporary impairments in the portfolio's value are evaluated and established at each balance sheet date. Substantially all of the Company's invested assets as of December 31, 2011 have been classified as "available for sale" pursuant to the existing investment policy.

The Company's investment policies are not designed to maximize or emphasize the realization of investment gains. The combination of gains and losses from sales or impairments of securities are reflected as realized gains and losses in the income statement. Dispositions of securities result principally from scheduled maturities of bonds and notes and sales of fixed income and equity securities available for sale. Dispositions of securities at a realized gain or loss reflect such factors as ongoing assessments of issuers' business prospects, rotation among industry sectors, changes in credit quality, and tax planning considerations.

The following tables show invested assets at the end of the last two years, together with investment income for each of the last three years:

Consolidated Investments

(\$ in Millions)

December 31,

	2011	2010	
Available for Sale			
Fixed Maturity Securities:			
U.S. & Canadian Governments	\$1,182.1	\$1,419.4	
Tax-Exempt	620.5	1,459.8	
Corporate	6,590.5	5,652.9	
	8,393.2	8,532.2	
Equity Securities	580.8	672.4	
Short-term Investments	1,476.2	1,004.0	
Miscellaneous Investments	35.3	40.7	
Total available for sale	10,485.6	10,249.4	
Other Investments	9.8	9.8	
Total Investments	\$10,495.5	\$10,259.3	
Sources of Consolidated Investment Income			
(\$ in Millions)			
Years Ended December 31,			
	2011	2010	2009
Fixed Maturity Securities:			
Taxable Interest	\$310.2	\$302.9	\$285.5
Tax-Exempt Interest	43.0	65.6	83.0
	353.2	368.5	368.6
Equity Securities Dividends	11.3	9.0	7.4
Other Investment Income:			
Interest on Short-term Investments	1.5	1.5	5.4
Sundry	4.7	3.9	4.9
	6.3	5.4	10.4
Gross Investment Income	370.9	383.1	386.5
Less: Investment Expenses (a)	6.2	4.1	3.0
Net Investment Income	\$364.6	\$379.0	\$383.5

Investment expenses consist of personnel costs and investment management and custody service fees, as well as (a) interest incurred on funds held of \$1.9 million, \$.5 million and \$.1 million for the years ended December 31, 2011, 2010 and 2009, respectively.

The independent credit quality ratings and maturity distribution for Old Republic's consolidated fixed maturity investments, excluding short-term investments, at the end of the last two years are shown in the following tables. These investments, \$8.3 billion and \$8.5 billion at December 31, 2011 and 2010, respectively, represented

approximately 52% and 54%, respectively, of consolidated assets, and 68% and 73%, respectively, of consolidated liabilities as of such dates.

Credit Quality Ratings of Fixed Maturity Securities (b)

	December 31,			
	2011	2010		
	(% of total portfolio)			
Aaa	15.2	% 21.3		%
Aa	14.1	20.6		
A	36.5	29.9		
Baa	33.3	26.9		
Total investment grade	99.1	98.7		
All other (c)	.9	1.3		
Total	100.0	% 100.0		%

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

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

Age Distribution of Fixed Maturity Securities

	December 31,			
	2011	2010		
	(% of total portfolio)			
Maturity Ranges:				
Due in one year or less	12.0	% 10.5		%
Due after one year through five years	42.4	52.2		
Due after five years through ten years	42.1	34.6		
Due after ten years through fifteen years	1.6	1.3		
Due after fifteen years	1.9	1.4		
	100.0	% 100.0		%
Average Maturity in Years	5.0	4.6		

(c) Marketing. Commercial automobile (trucking), workers' compensation and general liability insurance underwritten for business enterprises and public entities is marketed primarily through independent insurance agents and brokers with the assistance of Old Republic's trained sales, underwriting, actuarial, and loss control personnel. The remaining property and liability commercial insurance written by Old Republic is obtained through insurance agents or brokers who are independent contractors and generally represent other insurance companies, and by direct sales. No single source accounted for over 10% of Old Republic's premium volume in 2011.

As previously noted, the Company's flagship mortgage guaranty insurance carrier had been operating pursuant to a waiver of minimum state regulatory capital requirements since late 2009. This waiver expired on August 31, 2011. As a consequence, underwriting of new policies ceased and the existing book of business was placed in run-off operating mode. Prior to August 31, 2011, traditional primary mortgage insurance was marketed principally through a direct sales force which called on mortgage bankers, brokers, commercial banks, savings institutions and other mortgage originators. No sales commissions or other forms of remuneration were paid to the lending institutions or others for the procurement or development of business. The Mortgage Guaranty segment's ten largest customers were responsible for 36.0%, 34.4% and 47.6% of traditional primary new insurance written in 2011, 2010, and 2009,

respectively. The largest single customer accounted for 14.4% of traditional primary new insurance written in 2011 compared to 10.6% and 12.8% in 2010 and 2009, respectively.

A substantial portion of the Company's title insurance business is referred to it by title insurance agents, builders, lending institutions, real estate developers, realtors, and lawyers. Title insurance and related real estate settlement products are sold through 260 Company offices and through agencies and underwritten title companies in Puerto Rico, the District of Columbia and all 50 states. The issuing agents are authorized to issue commitments and title insurance policies based on their own search and examination, or on the basis of abstracts and opinions of approved attorneys. Policies are also issued through independent title companies (not themselves title insurers) pursuant to underwriting agreements. These agreements generally provide that the agency or underwritten company may cause title policies of the Company to be issued, and the latter is responsible under such policies for any payments to the insured. Typically, the agency or underwritten title company deducts the major portion of the title insurance charge to the customer as its commission for services. During 2011, approximately 67% of title insurance premiums and fees were accounted for by policies issued by agents and underwritten title companies.

Title insurance premium and fee revenue is closely related to the level of activity in the real estate market. The volume of real estate activity is affected by the availability and cost of financing, population growth, family movements and other factors. Also, the title insurance business is seasonal. During the winter months, new building activity is reduced and,

accordingly, the Company produces less title insurance business relative to new construction during such months than during the rest of the year. The most important factors, insofar as Old Republic's title business is concerned, however, are the rates of activity in the resale and refinance markets for residential properties.

The personal contacts, relationships, reputations, and intellectual capital of Old Republic's key executives are a vital element in obtaining and retaining much of its business. Many of the Company's customers produce large amounts of premiums and therefore warrant substantial levels of top executive attention and involvement. In this respect, Old Republic's mode of operation is similar to that of professional reinsurers and commercial insurance brokers, and relies on the marketing, underwriting, and management skills of relatively few key people for large parts of its business.

Historically, several types of insurance coverages underwritten by Old Republic, such as consumer credit indemnity, title, and mortgage guaranty insurance, are affected in varying degrees by changes in national economic conditions. During periods when housing activity or mortgage lending are constrained by any combination of rising interest rates, tighter mortgage underwriting guidelines, falling home prices, excess housing supply and/or economic recession, operating and/or claim costs pertaining to such coverages tend to rise disproportionately to revenues and can result in underwriting losses and reduced levels of profitability.

At least one Old Republic general insurance subsidiary is licensed to do business in each of the 50 states, the District of Columbia, Puerto Rico, Virgin Islands, Guam, and each of the Canadian provinces; mortgage insurance subsidiaries are licensed in 50 states and the District of Columbia; title insurance operations are licensed to do business in 50 states, the District of Columbia, Puerto Rico and Guam. Consolidated direct premium volume distributed among the various geographical regions shown was as follows for the past three years:

Geographical Distribution of Consolidated Direct Premiums Written

	2011	2010	2009	
United States:				
Northeast	11.9	% 9.3	% 9.0	%
Mid-Atlantic	11.2	7.9	7.7	
Southeast	19.2	20.5	19.6	
Southwest	11.4	12.4	12.6	
East North Central	11.7	12.6	12.9	
West North Central	11.1	12.6	12.9	
Mountain	7.2	8.1	8.8	
Western	13.6	13.5	13.8	
Foreign (Principally Canada)	2.7	3.1	2.7	
Total	100.0	% 100.0	% 100.0	%

(d) Reserves, Reinsurance, and Retrospective Adjustments. Old Republic's insurance subsidiaries establish reserves for unearned premiums, reported claims, claims incurred but not reported, and claim adjustment expenses, as required in the circumstances. Such reserves are based on regulatory accounting requirements and generally accepted accounting principles. In accordance with insurance industry practices, claim reserves are based on estimates of the amounts that will be paid over a period of time and changes in such estimates are reflected in the financial statements of the periods during which they occur. See "General Insurance Claim Reserves" herein.

To maintain premium production within its capacity and limit maximum losses and risks for which it might become liable under its policies, Old Republic, as is the practice in the insurance industry, may cede a portion or all of its premiums and liabilities on certain classes of insurance, individual policies, or blocks of business to other insurers and reinsurers. Although the ceding of insurance does not generally discharge an insurer from its direct liability to a

policyholder, it is industry practice to establish the reinsured part of risks as the liability of the reinsurer. Old Republic also employs retrospective premium adjustments and risk sharing arrangements for parts of its business in order to minimize losses for which it might become liable under its insurance policies, and to afford its customers or producers a degree of participation in the risks and rewards associated with such business. Under retrospective arrangements, Old Republic collects additional premiums if losses are greater than originally anticipated and refunds a portion of original premiums if loss costs are lower. Pursuant to risk sharing arrangements, the Company adjusts production costs or premiums retroactively to likewise reflect deviations from originally expected loss costs. The amount of premium, production costs and other retrospective adjustments which may be made is either limited or unlimited depending on the Company's evaluation of risks and related contractual arrangements. To the extent that any reinsurance companies, retrospectively rated risks, or producers might be unable to meet their obligations under existing reinsurance, retrospective insurance and production agreements, Old Republic would be liable for the defaulted amounts. In these regards, however, the Company generally protects itself by withholding funds, by securing indemnity agreements, by obtaining surety bonds, or by otherwise collateralizing such obligations through irrevocable letters of credit, cash, or securities.

The following table displays the Company's General Insurance liabilities reinsured by its ten largest reinsurers as of December 31, 2011.

Major General Insurance Balances Due from Reinsurers

Reinsurer	A.M. Best Rating	(\$ in Millions)		Total Exposure to Reinsurer	% of Total Consolidated Reinsured Liabilities	
		Reinsurance Recoverable on Paid Claims	Reserves on Claims Reserves			
Munich Re America, Inc.	A+	\$ 10.0	\$ 719.1	\$ 729.2	25.1	%
Swiss Reinsurance America Corporation	A+	3.7	238.8	242.5	8.4	
Trabaja Reinsurance Company	Unrated	2.7	126.4	129.2	4.4	
Hannover Ruckversicherungs	A	1.1	109.0	110.1	3.8	
National WC Reinsurance Pool	Unrated	3.9	99.3	103.3	3.6	
General Reinsurance Corporation	A++	3.6	87.1	90.8	3.1	
Muenchener Ruckversicherungs	A+	3.2	67.2	70.5	2.4	
Imagine International Reinsurance	Unrated	—	64.7	64.7	2.2	
Westport Insurance Corporation	A+	.4	61.7	62.1	2.1	
PXRE Reinsurance Company	Unrated	21.1	33.7	54.8	1.9	
Total		\$ 50.1	\$ 1,607.5	\$ 1,657.7	57.1	%

The Mortgage Guaranty Group's total claims exposure to its largest reinsurer, Bank of America Reinsurance Corporation, was \$18.7 million, which represented .7% of total consolidated reinsured liabilities as of December 31, 2011. Reinsured liabilities of the Title Insurance Group and small life and health insurance operations are not material.

Reinsurance recoverable asset balances represent amounts due from or credited by assuming reinsurers for paid and unpaid claims and policy reserves. Such reinsurance balances that are recoverable from non-admitted foreign and certain other reinsurers such as captive insurance companies owned by assureds or business producers, as well as similar balances or credits arising from policies that are retrospectively rated or subject to assureds' high deductible retentions are substantially collateralized by letters of credit, securities, and other financial instruments. Old Republic evaluates on a regular basis the financial condition of its assuming reinsurers and assureds who purchase its retrospectively rated or high deductible policies. Estimates of unrecoverable amounts are included in the Company's net claim and claim expense reserves since reinsurance, retrospectively rated and self-insured deductible policies and contracts do not relieve Old Republic from its direct obligations to assureds or their beneficiaries.

Old Republic's reinsurance practices with respect to portions of its business also result from its desire to bring its sponsoring organizations and customers into some degree of joint venture or risk sharing relationship. The Company may, in exchange for a ceding commission, reinsure up to 100% of the underwriting risk, and the premium applicable to such risk, to insurers owned by or affiliated with lending institutions, financial and other intermediaries, and commercial institutions generally whose customers are insured by Old Republic, or individual customers who have formed captive insurance companies. The ceding commissions received compensate Old Republic for performing the direct insurer's functions of underwriting, actuarial, claim settlement, loss control, legal, reinsurance, and administrative services to comply with local and federal regulations, and for providing appropriate risk management services.

Remaining portions of Old Republic's business are reinsured in most instances with independent insurance or reinsurance companies pursuant to excess of loss agreements. Except as noted in the following paragraph, reinsurance protection on property and liability coverages generally limits the net loss on most individual claims to a maximum of: \$5.2 million for workers' compensation; \$3.5 million for commercial auto liability; \$3.5 million for general liability; \$8.0 million for executive protection (directors & officers and errors & omissions); \$2.0 million for aviation; and \$3.5

million for property coverages. Roughly 15% of the mortgage guaranty traditional primary insurance in force is subject to lender sponsored captive reinsurance arrangements structured primarily on an excess of loss basis. All bulk and other mortgage guaranty insurance risk in force is retained. Exclusive of reinsurance, the average direct primary mortgage guaranty exposure is approximately (in whole dollars) \$38,400 per insured loan. Title insurance risk assumptions are currently limited to a maximum of \$500.0 million as to any one policy. The vast majority of title policies issued, however, carry exposures of less than \$1.0 million.

Since January 1, 2005, the Company has had maximum reinsurance coverage of up to \$200.0 million for its workers' compensation exposures. Pursuant to regulatory requirements, however, all workers' compensation primary insurers such as the Company remain liable for unlimited amounts in excess of reinsured limits. Other than the substantial concentration of workers' compensation losses caused by the September 11, 2001 terrorist attack on America, to the best of the Company's knowledge there had not been a similar accumulation of claims in a single location from a single occurrence prior to that event. Nevertheless, the possibility continues to exist that non-reinsured losses could, depending on a wide range of severity and frequency assumptions, aggregate several hundred million dollars to an insurer such as the Company. Such aggregation of losses could occur in the event of a catastrophe such as an earthquake that could lead to the death or injury of a large number of persons concentrated in a single facility such as a high rise building.

As a result of the September 11, 2001 terrorist attack on America, the reinsurance industry eliminated coverage from substantially all contracts for claims arising from acts of terrorism. Primary insurers like the Company thus became fully

exposed to such claims. Late in 2002, the Terrorism Risk Insurance Act of 2002 (the "TRIA") was signed into law, immediately establishing a temporary federal reinsurance program administered by the Secretary of the Treasury. The program applied to insured commercial property and casualty losses resulting from an act of terrorism, as defined in the TRIA. Congress extended and modified the program in late 2005 through the Terrorism Risk Insurance Revision and Extension Act of 2005 (the "TRIREA"). TRIREA expired on December 31, 2007. Congress enacted a revised program in December 2007 through the Terrorism Risk Insurance Program Reauthorization Act of 2007 (the "TRIPRA"), a seven year extension through December 31, 2014. The TRIA automatically voided all policy exclusions which were in effect for terrorism related losses and obligated insurers to offer terrorism coverage with most commercial property and casualty insurance lines. The TRIREA revised the definition of "property and casualty insurance" to exclude commercial automobile, burglary and theft, surety, professional liability and farm owner's multi-peril insurance. TRIPRA did not make any further changes to the definition of property and casualty insurance, however, it does include domestic acts of terrorism within the scope of the program. Although insurers are permitted to charge an additional premium for terrorism coverage, insureds may reject the coverage. Under TRIPRA, the program's protection is not triggered for losses arising from an act of terrorism until the industry first suffers losses of \$100 billion in the aggregate during any one year. Once the program trigger is met, the program will pay 85% of an insurer's terrorism losses that exceed that individual insurer's deductible. The insurer's deductible is 20% of direct earned premium on property and casualty insurance. Insurers may reinsure that portion of the risk they retain under the program. Effective January 1, 2008, the Company reinsured limits of \$198.0 million excess of \$2.0 million for claims arising from certain acts of terrorism for casualty clash coverage and catastrophe workers' compensation liability insurance coverage.

(e) Competition. The insurance business is highly competitive and Old Republic competes with many stock and mutual insurance companies. Many of these competitors offer more insurance coverages and have substantially greater financial resources than the Company. The rates charged for many of the insurance coverages in which the Company specializes, such as workers' compensation insurance, other property and liability insurance and title insurance, are primarily regulated by the states and are also subject to extensive competition among major insurance organizations. The basic methods of competition available to Old Republic, aside from rates, are service to customers, expertise in tailoring insurance programs to the specific needs of its clients, efficiency and flexibility of operations, personal involvement by its key executives, and, as to title insurance, accuracy and timely delivery of evidences of title issued.

For certain types of coverages, including loan credit indemnity and mortgage guaranty insurance, the Company has historically competed in varying degrees with the Federal Housing Administration ("FHA") and the Veterans Administration ("VA"). In recent years, the FHA's market share of insured mortgages has increased significantly, mostly due to the more restrictive underwriting guidelines and premium rate increases imposed by private mortgage insurers. Mortgage insurance companies also compete by providing contract underwriting services to lenders, enabling the latter to improve the efficiency of their operations by outsourcing all or part of their mortgage loan underwriting processes. As already noted, the Company ceased underwriting new mortgage guaranty insurance effective August 31, 2011.

The Company believes its experience and expertise have enabled it to develop a variety of specialized insurance programs and related services for its customers, and to secure state insurance departments' approval of these programs.

(f) Government Regulation. In common with all insurance companies, Old Republic's insurance subsidiaries are subject to the regulation and supervision of the jurisdictions in which they do business. The method of such regulation varies, but, generally, regulation has been delegated to state insurance commissioners who are granted broad administrative powers relating to: the licensing of insurers and their agents; the nature of and limitations on investments; approval of policy forms; reserve requirements; and trade practices. In addition to these types of regulation, many classes of insurance, including most of the Company's insurance coverages, are subject to rate

regulations which require that rates be reasonable, adequate, and not unfairly discriminatory.

The FNMA and the FHLMC sometimes also referred to as Government Sponsored Enterprises ("GSEs") have various qualifying requirements for private mortgage guaranty insurers which write mortgage insurance on loans acquired by the FNMA and FHLMC from mortgage lenders. These requirements call for compliance with the applicable laws and regulations of the insurer's domiciliary state and those states in which it conducts business and maintenance of contingency reserves in accordance with applicable state laws. The requirements also contain guidelines pertaining to captive reinsurance transactions. The GSEs also place additional restrictions on qualified insurers who fail to maintain the equivalent of a AA financial strength rating from at least two nationally recognized statistical rating agencies. Since 2008, substantially all national mortgage guaranty insurance companies, including Old Republic's mortgage insurance subsidiaries, have experienced ratings downgrades below AA. As a result, all of these companies have been required to submit capital remediation plans to FNMA and FHLMC, and continued as approved mortgage guaranty insurers for loans purchased by the GSEs. On January 19, 2012, the North Carolina Department of Insurance issued an Order of Supervision providing for its immediate administrative supervision of the Company's flagship mortgage guaranty insurance carrier as discussed in Item 1(a).

The majority of states have also enacted insurance holding company laws which require registration and periodic reporting by insurance companies controlled by other corporations licensed to transact business within their respective jurisdictions. Old Republic's insurance subsidiaries are subject to such legislation and are registered as controlled insurers in those jurisdictions in which such registration is required. Such legislation varies from state to state but typically requires periodic disclosure concerning the corporation which controls the registered insurers, or ultimate holding company, and all subsidiaries of the ultimate holding company, and prior approval of certain intercorporate transfers of assets (including payments of dividends in excess of specified amounts by the insurance subsidiary) within the holding company system. Each state has established minimum capital and surplus requirements to conduct an insurance business. All of the Company's subsidiaries, except its mortgage guaranty insurance subsidiaries as described above, meet or exceed these

requirements, which vary from state to state.

(g) Employees. As of December 31, 2011, Old Republic and its subsidiaries employed approximately 7,900 persons on a full time basis. A majority of eligible full time employees participate in various pension (all of which are in run-off status) or similar plans which provide benefits payable upon retirement. Eligible employees are also covered by hospitalization and major medical insurance, group life insurance, and various savings, profit sharing, and deferred compensation plans. The Company considers its employee relations to be good.

(h) Website access. The Company files various reports with the U.S. Securities and Exchange Commission ("SEC"), including its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. The Company's filings are available for viewing and/or copying at the SEC's Public Reference Room located at 450 Fifth Street, NW., Washington, DC 20549. Information regarding the operation of the Public Reference Room can be obtained by calling 1-800-SEC-0330. The Company's reports are also available by visiting the SEC's internet website (<http://www.sec.gov>) and accessing its EDGAR database to view or print copies of the electronic versions of the Company's reports. Additionally, the Company's reports can be obtained, free of charge, by visiting its internet website (<http://www.oldrepublic.com>), selecting Investors then SEC Filings to view or print copies of the electronic versions of the Company's reports. The contents of the Company's internet website are not intended to be, nor should they be considered incorporated by reference in any of the reports the Company files with the SEC.

Item 1A - Risk Factors

Risk factors are uncertainties and events over which the Company has limited or no control, and which can have a materially adverse effect on its business, results of operations or financial condition. The Company and its business segments are subject to a variety of risk factors and, within individual segments, each type of insurance coverage may be exposed to varying risk factors. The following sections set forth management's evaluation of the most prevalent material risk factors for the Company as a whole and for each business segment. There may be risks which management does not presently consider to be material that may later prove to be material risk factors as well.

Parent Company

Dividend Dependence and Liquidity

The Company is an insurance holding company with no operations of its own. Its principal assets consist of the business conducted by its insurance subsidiaries. It relies upon dividends from subsidiaries in order to pay the interest and principal on its debt obligations, dividends to its shareholders, and corporate expenses. The extent to which the insurance subsidiaries are able to declare and pay dividends is subject to regulations under the laws of their states or foreign jurisdictions of domicile. The regulations limit dividends based on the amount of statutory adjusted unassigned surplus or statutory earnings, and require the insurance subsidiaries to maintain minimum amounts of capital, surplus and reserves. Dividends in excess of the ordinary limitations can only be declared and paid with prior regulatory approval, of which there can be no assurance. The inability of the insurance subsidiaries to pay dividends in an amount sufficient to meet the Company's debt service and cash dividends on stock, as well as other cash requirements could result in liquidity issues.

Capitalization

Apart from dividends from its subsidiaries, the Company has access to various capital and liquidity resources including holding company investments and debt and equity capital markets. At December 31, 2011, the Company's consolidated debt to equity ratio was 24.2%. Management believes that this level of financial leverage is sufficiently

conservative that the Company would have additional borrowing capacity to meet some possible future capital needs. The availability of all such capital sources cannot, however, be assured and its cost could be significant at the time capital is raised.

Convertible Senior Notes

The Company's 3.75% and 8.0% Convertible 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, Republic Mortgage Insurance Company, ("RMIC") qualifies as a Significant Subsidiary for purposes of the Notes. If RMIC were to become statutorily impaired, its insolvency could trigger a receivership proceeding which, in turn could ultimately result in an event of default. If this were to occur, the outstanding principal of the Notes could become immediately due and payable. As previously noted, however, the Order of Supervision issued by the North Carolina Department of Insurance to RMIC has at least temporarily precluded such an event from occurring. While the Company believes that it would have access to the capital markets or otherwise mitigate an event of default under both Notes, there is no assurance that it would be able to do so under stressful capital market conditions.

Risk Factors Common to the Company and its Insurance Subsidiaries

Investment Risks

The Company's invested assets and those of its subsidiaries are centrally managed through a wholly owned asset management subsidiary. Most of the investments consist of fixed maturity securities.

Changes in interest rates directly affect the income from, and the fair value of fixed maturity investments. Such changes could reduce the value of the Company's investment portfolio and adversely affect the Company's and its subsidiaries' results of operations and financial condition. A smaller percentage of total investments are in indexed funds and actively managed equities. A change in general economic conditions, the stock market, or in many other external factors could adversely affect the value of those investments and, in turn, the Company's, or its subsidiaries' results and financial condition. Further, the Company manages its fixed maturity investments by taking into account the maturities of such securities and the anticipated liquidity needs of the Company and its subsidiaries. Should Old Republic suddenly experience greater than anticipated liquidity needs for any reason, it could face a temporary cash shortfall that could have a materially adverse effect on its financial condition or operating results.

Excessive Losses and Loss Expenses

Although the Company's business segments encompass different types of insurance, the greatest risk factor common to all insurance coverages is excessive losses due to unanticipated claims frequency, severity or a combination of both. Many of the factors affecting the frequency and severity of claims depend upon the type of insurance coverage, but others are shared in common. Severity and frequency can be affected by changes in national economic conditions, unexpectedly adverse outcomes in claims litigation, often as a result of unanticipated jury verdicts, changes in court made law, adverse court interpretations of insurance policy provisions resulting in increased liability or new judicial theories of liability, together with unexpectedly high costs of defending claims.

Inadequate Reserves

Reserves are the amounts that an insurance company sets aside for its anticipated policy liabilities. Claim reserves are an estimate of liability for unpaid claims and claims defense and adjustment expenses, and cover both reported as well as IBNR claims. It is not possible to calculate precisely what these liabilities will amount to in advance and, therefore, the reserves represent a best estimate at any point in time. Such estimates are based upon known historical loss data, certain assumptions and expectations of future trends in claim frequency and severity, interest rates and other economic considerations. The latter are affected by a variety of factors over which insurers have little or no control and which can be quite volatile.

Reserve estimates are periodically reviewed in light of known developments and, where necessary, they are adjusted and refined as circumstances may warrant. Nevertheless, the reserve setting process is inherently uncertain. If for any of these reasons reserve estimates prove to be inadequate, the Company's subsidiaries can be forced to increase their reported liabilities; such an occurrence could result in a materially adverse impact on their results of operations and financial condition.

Inadequate Pricing

Premium rates are generally determined on the basis of historical data for claim frequency and severity as well as related production and other expense patterns. In the event ultimate claims and expenses exceed historically projected

levels, premium rates are likely to prove insufficient. Premium rate inadequacy may not become evident quickly, may require time to correct, and, much like excessive losses can affect adversely the Company's business, operating results and financial condition.

Liquidity Risk

As indicated above, the Company manages its fixed-maturity investments with a view toward matching the maturities of those investments with the anticipated liquidity needs of its subsidiaries for the payment of claims and expenses. If a subsidiary suddenly experienced greater-than-anticipated liquidity needs for any reason, it could require an injection of funds that might not necessarily be available to meet its obligations at a point in time.

Regulatory Environment

The Company's insurance businesses are subject to extensive governmental regulation under state laws in the U.S. and the laws of each of the other jurisdictions outside the U.S. in which they operate. These regulations relate to such matters as licensing requirements, types of insurance products that may be sold, premium rates, marketing practices, capital and surplus requirements, investment limitations, underwriting limitations, dividend payment limitations, transactions with affiliates, accounting practices, taxation and other matters. While most of the regulation is at the state level in the U.S., the federal government has increasingly expressed an interest in regulating the insurance business and has injected itself through the Graham-Leach-Bliley Act, the Patriot Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2009, changes in the Internal Revenue Code and other legislation. Regulations bear directly on the costs of conducting an insurance business through increased compliance expenses. Apart from the rising costs

of compliance, as existing regulations evolve through administrative and court interpretations, and as new regulations are adopted, there is no basis for predicting the impact that changes could have on the Company's businesses in the future. The impact could have a material adverse effect on the manner in which the company's subsidiaries do business, and on their ability to compete, continue offering their existing products, or pursue acquisitions and growth opportunities.

Competition

Each of the Company's lines of insurance business is highly competitive and is likely to remain so for the foreseeable future. Moreover, existing competitors and the capital markets have from time to time brought an influx of capital and newly-organized entrants into the industry, and changes in laws have allowed financial institutions, like banks and savings and loans, to sell insurance products. Increases in competition threaten to reduce demand for the Company's insurance products, reduce its market share, reduce its growth, reduce its profitability and generally adversely affect its results of operations and financial condition.

Rating Downgrades

The competitive positions of insurance companies in general have come to depend increasingly on independent ratings of their financial strength and claims-paying ability. The rating agencies base their ratings on criteria they establish regarding an insurer's financial strength, operating performance, strategic position and ability to meet its obligations to policyholders. A significant downgrade in the ratings of any of the Company's major policy-issuing subsidiaries could have a materially adverse effect on their ability to compete for new business and retain existing business and, as a result, their operations and financial condition.

Financial Institutions Risk

The Company's subsidiaries have significant business relationships with financial institutions, particularly national banks. The subsidiaries are the beneficiaries of a considerable amount of security in the form of letters of credit which they hold as collateral securing the obligations of insureds and certain reinsurers. Some of the banks themselves have subsidiaries that reinsure the Company's business. Other banks are depositories holding large sums of money in escrow accounts established by the Company's title subsidiaries. There is thus a risk of concentrated financial exposures in one or more such banking institutions. If any of these institutions fail or are unable to honor their credit obligations, or if escrowed funds become lost or tied up due to the failure of a bank, the result could have a materially adverse effect on the Company's business, results of operations and financial condition.

Risk Management

The Company has established processes and procedures designed to identify, measure, analyze, monitor and report the types of risk the Company and its subsidiaries are subject to, including operational risk, market risk, credit risk, liquidity risk, investment risk, interest rate risk, legal risk and reputational risk, among others. There are inherent limitations in such processes and procedures, and as a result, there is a risk that the Company has not adequately identified or anticipated risks. Such inadequacies could lead to future unexpected losses or expenses.

Legal Risks

The Company and certain of its subsidiaries are from time to time named defendants or otherwise involved in various legal proceedings, including class actions and other litigation or arbitration proceedings with third parties, as well as proceedings by regulatory agencies. Any of these actions could result in judgments, settlements, fines or penalties which could materially adversely affect the Company's or its subsidiaries' business, financial condition or results of

operations.

Acquisition Integration Risk

The Company has from time to time grown its business by acquisition and is likely to consider acquisitions in the future. There can never be any assurance that such acquisitions will have positive accretive results. Integration of an acquired business can be costly and complex. The integration of acquisitions already completed, as well as any that may be completed in the future could result in significant unanticipated costs or losses of one sort or another.

Attracting and Retaining Qualified Employees

The Company's and its subsidiaries' employees at all levels are among their most important assets. Should the Company and its subsidiaries for any reason be unable to attract and retain qualified employees, their performance could be materially adversely affected.

In addition to the foregoing, the following are risk factors that are particular to each of the Company's three major business segments.

General Insurance Group

Catastrophic Losses

While the Company limits the property exposures it assumes, the casualty or liability insurance it underwrites creates an exposure to claims arising out of catastrophes. The two principal catastrophe exposures are earthquakes and acts

of terrorism in areas where there are large concentrations of employees of an insured employer or other individuals who could potentially be injured and assert claims against an insured under workers' compensation policies. Collateral damage to property or persons from acts of terrorism and other calamities could also expose general liability policies.

Following the September 11, 2001 terrorist attack, the reinsurance industry eliminated coverage from substantially all reinsurance contracts for claims arising from acts of terrorism. As discussed elsewhere in this report, the U.S. Congress subsequently passed TRIA, TRIREA, and TRIPRA legislation that required primary insurers to offer coverage for certified acts of terrorism under most commercial property and casualty insurance policies. Although these programs established a temporary federal reinsurance program through December 31, 2014, primary insurers like the Company's general insurance subsidiaries retain significant exposure for terrorist act-related losses.

Long-Tailed Losses

Coverage for general liability is considered long-tailed coverage. Written in most cases on an "occurrence" basis, it often takes longer for covered claims to be reported and become known, adjusted and settled than it does for property claims, for example, which are generally considered short-tailed. The extremely long-tailed aspect of such claims as pollution, asbestos, silicosis, manganism (welding rod fume exposure), black lung, lead paint and other toxic tort claims, coupled with uncertain and sometimes variable judicial rulings on coverage and policy allocation issues and the possibility of legislative actions, makes reserving for these exposures highly uncertain. While the Company believes that it has reasonably estimated its liabilities for such exposures to date, and that its exposures are relatively modest, there is a risk of materially adverse developments in both known and as-yet-unknown claims.

Workers' Compensation Coverage

Workers' compensation coverage is the largest line of insurance written within the Company. The frequency and severity of claims under, and the adequacy of reserves for workers' compensation claims and expenses can all be significantly influenced by such risk factors as future wage inflation in states that index benefits, the speed with which injured employees are able to return to work in some capacity, the cost and rate of inflation in medical treatments, the types of medical procedures and treatments, the cost of prescription medications, the frequency with which closed claims reopen for additional or related medical issues, the mortality of injured workers with lifetime benefits and medical treatments, the use of health insurance to cover some of the expenses, the assumption of some of the expenses by states' second injury funds, the use of cost containment practices like preferred provider networks, and the opportunities to recover against third parties through subrogation. Adverse developments in any of these factors, if significant, could have a materially adverse effect on the Company's operating results and financial condition.

Reinsurance

Reinsurance is a contractual arrangement whereby one insurer (the reinsurer) assumes some or all of the risk exposure written by another insurer (the reinsured). The Company depends on reinsurance to manage its risks both in terms of the amount of coverage it is able to write, the amount it is able to retain for its own account, and the price at which it is able to write it. The availability of reinsurance and its price, however, are determined in the reinsurance market by conditions beyond the Company's control.

Reinsurance does not relieve the reinsured company of its primary liability to its insureds in the event of a loss. It merely reimburses the reinsured company. The ability and willingness of reinsurers to honor their counterparty obligations to the Company represent credit risks. Old Republic has no practical basis for evaluating the risks assumed by a reinsurer from sources other than its own. Those risks could result in a significant deterioration of the reinsurer's ability to honor its obligations to the Company, thereby exacerbating credit risk exposure.

Old Republic addresses these risks by limiting its reinsurance placements to those reinsurers it considers the best credit risks. In recent years, however, there has been an ever decreasing number of reinsurers so considered. There can be no assurance that the Company will be able to find the desired or even adequate amounts of reinsurance at favorable rates from acceptable reinsurers in the future. If unable to do so, the Company would be forced to reduce the volume of business it writes or retain increased amounts of liability exposure. Because of the declining number of acceptable reinsurers, there is a risk that too much reinsurance risk may become concentrated in too few reinsurers. These concentrations of risk could adversely affect the Company's business, results of operations, and financial condition.

Insureds as Credit Risks

A significant amount of Old Republic's liability and workers' compensation business, particularly for large commercial insureds, is written on the basis of risk sharing underwriting methods utilizing large deductibles, captive insurance risk retentions, or other arrangements whereby the insureds effectively retain and fund varying and at times significant amounts of their losses. Their financial strength and ability to pay are carefully evaluated as part of the underwriting process and monitored periodically thereafter, and their retained exposures are estimated and collateralized based on pertinent credit analysis and evaluation. Because the Company is primarily liable for losses incurred under its policies, the possible failure or inability of insureds to honor their retained liability represents a credit risk. Any subsequently developing shortage in the amount of collateral held would also be a risk, as would the failure or inability of a bank to honor a letter of credit issued as collateral. These risk factors could have a materially adverse impact on the Company's results of operations and financial condition.

Guaranty Funds and Residual Markets

In nearly all states, licensed property and casualty insurers are required to participate in guaranty funds through assessments covering a portion of insurance claims against impaired or insolvent property and casualty insurers. Any increase in the number or size of impaired companies would likely result in an increase in the Company's share of such assessments.

Many states have established second injury funds that compensate injured employees for aggravation of prior injuries or conditions. These second injury funds are funded by assessments or premium surcharges.

Residual market or pooling arrangements exist in many states to provide various types of insurance coverage to those that are otherwise unable to find private insurers willing to insure them. All licensed property and casualty insurers writing such coverage voluntarily are required to participate in these residual market or pooling mechanisms.

A material increase in any of these assessments or charges could adversely affect the Company's results of operations and financial condition.

Prior Approval of Rates

Most of the lines of insurance underwritten by the Company are subject to prior regulatory approval of premium rates in a majority of the states. The process of securing regulatory approval can be time consuming and can impair the Company's ability to effect necessary rate increases in an expeditious manner. Furthermore, there is a risk that the regulators will not approve a requested increase, particularly in regard to workers' compensation insurance with respect to which rate increases often confront strong opposition from local business, organized labor, and political interests.

Mortgage Guaranty Group

Continued Material Losses

It is more likely than not that the Company's mortgage insurance segment will continue to incur material losses for years 2012 and 2013 in particular, though subsequent years may experience losses as well. Any decline in the rate and severity of losses will depend in part on improvements in general economic conditions, unemployment rates, and the housing, mortgage and credit markets. The timing of any such improvements cannot be accurately forecasted, and there is no assurance that improvements will be uniform across all sectors. Housing values and unemployment may be the last to recover in the current economic cycle. It is unclear to what extent, if at all, the loan modification programs of the FDIC, Fannie Mae, Freddie Mac, and loan servicers will reduce the rate of loan defaults and, in turn, mortgage insurance claims and losses.

Possible Statutory Capital Impairment of Principal Subsidiary

The material increases in mortgage guaranty insurance claims and loss payments that began in 2007 have substantially depleted RMIC's statutory capital base and forced it to discontinue writing new business. Sixteen states have insurance laws or regulations which require a mortgage insurer to maintain a minimum amount of statutory capital relative to the level of risk in force, the most common measure being a risk to capital ratio of 25 to 1. The failure to maintain the prescribed minimum capital level in a particular state would generally require 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, Republic Mortgage Insurance Company of North Carolina (RMIC-NC), discontinued writing new business in all states and limited themselves to servicing the run-off of their existing business.

On January 19, 2012, the North Carolina Department of Insurance ("Department") issued a Summary Order (the "Order") immediately placing RMIC under administrative supervision and, among other measures, directing RMIC to reduce claims payments by 50% for up to one year's time. The remaining 50% is to be recorded as a deferred payment obligation and credited to a temporary statutory surplus account. The imposition of supervision and the restriction on claims payments will significantly reduce the rate at which RMIC's statutory capital is eroded by losses. As a result, the Order makes RMIC's statutory insolvency less likely. However, the Order could be amended or withdrawn by the Department at any time or allowed to lapse after a year's time. There can be no assurance that the 50% payment limitation will remain in place for an extended period, nor that RMIC will ultimately regain enough capital to re-enter the market writing new business, or that the Order will preclude the statutory impairment of the Company at a later date.

Premium Income and Long-Term Claim Exposures

Mortgage insurers such as the Company issue long duration, guaranteed renewable policies covering multi-year periods during which exposure to loss exists. Loss exposures typically manifest themselves as recurring losses usually concentrated between the second and fifth year following issuance of any one year's new policies. Additionally, the policies cover catastrophic aggregations of claims such as those that have been occurring during the current recession engendered by substantial market dislocations in the housing and mortgage lending industries.

The Company's mortgage guaranty premiums stem principally from monthly installment policies. Substantially all such premiums are generally written and earned in the month coverage is effective. Recognition of claim costs, however, occurs only after an insured mortgage loan has missed two or more consecutive monthly payments. Accordingly, GAAP revenue recognition is not appropriately matched to the risk exposure and the consequent recognition of both normal and, most significantly, future catastrophic loss occurrences. As a result, mortgage guaranty GAAP earnings for any individual year or series of years may be materially adversely affected, particularly by cyclical catastrophic loss events such as the mortgage insurance industry has experienced since mid-year 2007. Reported GAAP earnings and financial condition form, in part, the basis for significant judgments and strategic evaluations made by management, analysts, investors, and other users of the financial statements issued by mortgage guaranty companies. The risk exists that such judgments and evaluations are at least partially based on GAAP financial information that does not match revenues and expenses and is not reflective of the long-term normal and catastrophic risk exposures assumed by mortgage guaranty insurers at any point in time.

Inadequate Loss Reserves

The Company's mortgage insurance subsidiaries establish reserves for losses and loss adjustment expenses based upon mortgage loans reported to be in default, as well as estimates of those in default but not yet reported. Of necessity, the reserves are at best estimates by management, taking into consideration its judgments and assumptions regarding the housing and mortgage markets, unemployment rates and economic trends in general. During the ongoing sustained economic downturn, loss reserve estimates become subject to even greater uncertainty and volatility. The rate and severity of actual losses could prove to be greater than expected and require the Company to effect substantial increases in its loss reserves, notwithstanding the reserve decreases allowed for statutory accounting purposes under the Order. Depending upon the magnitude, such increases could have a materially adverse impact on the Company's mortgage insurance segment and the Company's consolidated results of operations and financial condition. There can be no assurance that the actual losses paid by the mortgage insurance subsidiaries, even with the benefit of the deferred payment obligation provisions under the Order described above, will not be materially greater than previously established loss reserves.

Fewer Coverage Rescissions

The Company's mortgage insurance policy provisions permit it to rescind coverage whenever it finds evidence that a mortgage loan did not qualify for insurance coverage in the first instance, or that a material misrepresentation had been made in the loan application by the borrower, the lender, and/or its agent. During the past several years, the rate of rescissions rose dramatically. As a result, rescissions reduced materially the percentage of approved claims, and loss reserving estimates have reflected assumptions as to the levels of rescission activity.

A few policyholders who have experienced high rates of coverage rescission have instituted litigation or arbitration proceedings challenging the Company's position on rescissions. Whether the current rescission rates continue or decrease, it is possible that further litigation or arbitral challenges to the Company's rescissions of coverage could arise. If any of the challenges are successful, they could have a materially adverse effect on the Company's Mortgage Guaranty and consolidated operating results and financial position. Even if such challenges should prove unsuccessful, the costs of addressing them could be substantial.

Diminished Role for Fannie Mae, Freddie Mac ("GSEs")

The market for private mortgage insurance exists almost entirely as a result of restrictions within the federal charters of the GSEs which require an acceptable form of credit enhancement on loans purchased by the GSEs that have loan-to-value ("LTV") ratios in excess of 80%. These institutions establish the levels of required coverage, the underwriting

standards for the loans they will purchase and the loss mitigation efforts that must be followed on insured loans. In response to their deteriorating financial conditions, the GSEs were placed in conservatorship under the Federal Housing Finance Agency ("FHFA") in September 2008. As their conservator, the FHFA could change the GSEs' business practices with respect to mortgage credit enhancement, or new federal legislation prompted by the increasing role of the federal government in the residential mortgage market could alter their charters or restructure the GSEs in ways that may reduce or eliminate their roles in the residential mortgage market. The Obama Administration has recommended winding down and gradually eliminating the GSEs' role in housing finance. Any such changes could have a material adverse effect on the mortgage insurance industry and RMIC's and RMIC-NC's ability to re-enter the market.

Competition

Competition is always a risk factor and arrives not only from other private mortgage insurers, but also from the Federal Housing Administration ("FHA") as well as the GSEs and the insured mortgage lenders themselves. Beginning in 2008, the volume of business underwritten by private mortgage insurers began to decrease, generally as a result of more restrictive underwriting guidelines, increased premium rates, and changes to the pricing policies of the GSE's. These changes, coupled with certain changes to the FHA's guidelines, resulted in a significant increase in the FHA's insured volume and its share of the market for mortgage default protection.

Other competitive risk factors faced by the mortgage insurance industry stem from certain credit enhancement alternatives to private mortgage insurance. These include:

- the retention of mortgage loans on an uninsured basis in the lender's portfolio of assets;
- capital markets utilizing alternative credit enhancements.

All of these competitive risk factors could adversely affect the Company's mortgage insurance subsidiaries ability to re-enter the market.

Title Insurance Group

Housing and Mortgage Lending Markets

Since 2006, the tightening and collapse of credit markets, the collapse of the housing market, the general decline in the value of real property, the rise in unemployment, and the uncertainty and negative trends in general economic conditions have created a difficult operating environment for the Company's title insurance subsidiaries. Depending upon their ultimate severity and duration, these conditions could have a materially adverse effect on these subsidiaries' financial condition and results of operation over the near and longer terms. The impact of these conditions has been somewhat mitigated both by lower mortgage interest rates, which have lead to an increase in mortgage refinancings and by a rise in the number of agents producing business for the Companies' title insurance subsidiaries.

Competition

Business comes to title insurers primarily by referral from real estate agents, lenders, developers and other settlement providers. The sources of business lead to a great deal of competition among title insurers. Although the top four title insurance companies during 2011 accounted for about 88% of industry-wide premium volume, there are numerous smaller companies representing the remainder at the regional and local levels. The smaller companies are an ever-present competitive risk in the regional and local markets where their business connections can give them a competitive edge. Moreover, there is always competition among the major companies for key employees, especially those engaged in business production.

Regulation and Litigation

Regulation is also a risk factor for title insurers. The title insurance industry has recently been, and continues to be, under regulatory scrutiny in a number of states with respect to pricing practices, and alleged RESPA violations and unlawful rebating practices. The regulatory investigations could lead to industry-wide reductions in premium rates and escrow fees, the inability to get rate increases when necessary, as well as to changes that could adversely affect the Company's ability to compete for or retain business or raise the costs of additional regulatory compliance.

As with the Company's other business segments, litigation poses a risk factor. Litigation is currently pending in a number of states in actions against the title industry alleging violations of rate applications in those states with respect to title insurance issued in certain mortgage refinancing transactions and violations of federal anti-trust laws in setting and filing premium rates.

Other Risks

Inadequate title searches are among the risk factors faced by the entire industry. If a title search is conducted thoroughly and accurately, there should theoretically never be a claim. When the search is less than thorough or complete, title defects can go undetected and claims result.

To a lesser extent, fraud is also a risk factor for all title companies -- sometimes in the form of an agent's or an employee's defalcation of escrowed funds, sometimes in the form of fraudulently issued title insurance policies.

Item 1B - Unresolved Staff Comments

None

Item 2 - Properties

The principal executive offices of the Company are located in the Old Republic Building in Chicago, Illinois. This Company-owned building contains 151,000 square feet of floor space of which approximately 52% is occupied by Old Republic, and the remainder is leased to others. In addition to its Chicago building, the Company owns two other major office buildings. A subsidiary of the Title Insurance Group partially occupies its owned headquarters building in Minneapolis, Minnesota. This building contains 110,000 square feet of floor space of which approximately 73% is occupied by the Old Republic National Title Insurance Company, and the remainder is leased to others. A subsidiary of the General Insurance Group, PMA, owns its building in Blue Bell, Pennsylvania. This building contains 110,000 square feet of floor space and is entirely owner-occupied. Eight smaller buildings are owned by Old Republic and its subsidiaries in various parts of the nation and are primarily used for its business. The carrying value of all owned buildings and related land at December 31, 2011 was \$58.5 million.

Certain other operations of the Company and its subsidiaries are directed from leased premises. See Note 4(b) of the Notes to Consolidated Financial Statements for a summary of all material lease obligations.

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Item 3 - Legal Proceedings

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

Purported class action lawsuits are pending against the Company's principal title insurance subsidiary, Old Republic National Title Insurance Company ("ORNTIC"), in federal courts in two states - Pennsylvania (Markocki et al. v. ORNTIC, U.S. District Court, Eastern District, Pennsylvania, filed June 8, 2006), and Texas (Ahmad et al. v. ORNTIC, U.S. District Court, Northern District, Texas, Dallas Division, filed February 8, 2008). The plaintiffs allege that ORNTIC failed to give consumers reissue and/or refinance credits on the premiums charged for title insurance covering mortgage refinancing transactions, as required by rate schedules filed by ORNTIC or by state rating bureaus with the state insurance regulatory authorities. The Pennsylvania suit also alleges violations of the federal Real Estate Settlement Procedures Act ("RESPA"). The Court in the Texas suit dismissed similar RESPA allegations. Classes have been certified in both actions, but the 5th Circuit Court of Appeals has granted ORNTIC's motion appealing the Texas class certification.

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, and the dismissals are currently being appealed. 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. On June 28, 2011, the Federal District Court for the Northern District of California granted a motion to stay the litigation and compel arbitration of individual claims, thus precluding the certification of a class action. The other suits in which ORNTIC was a named defendant have all been dismissed at the trial court level.

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 (Campion v. Old Republic Home Protection) 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 (Barker v. Old Republic Home Protection) alleges that ORHP paid fees to real estate brokers to market its home warranty contracts and that the payment of such fees was in violation of Section 8(a) of RESPA. The suit seeks unspecified damages, including treble damages under RESPA. No class has been certified in the Alabama action. Neither action is expected to result in any material liability to the Company.

On December 19, 2008, Old Republic Insurance Company and Old Republic Insured Credit Services, Inc., ("Old Republic") filed suit against Countrywide Bank FSB, Countrywide Home Loans, Inc. ("Countrywide") and Bank of New York Mellon, BNY Mellon Trust of Delaware in the Circuit Court, Cook County, Illinois (Old Republic

Insurance Company, et al. v. Countrywide Bank FSB, et al.). The suit seeks rescission of various credit indemnity policies issued to insure home equity loans and home equity lines of credit which Countrywide had securitized or held for its own account, and a declaratory judgment and money damages based upon material misrepresentations either by Countrywide as to the credit characteristics of the loans or by the borrowers in their loan applications. Countrywide filed a counterclaim alleging a breach of contract, bad faith and seeking a declaratory judgment challenging the factual and procedural bases that Old Republic had relied upon to deny or rescind coverage for individual defaulted loans under those policies, as well as unspecified compensatory and punitive damages.

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

On December 31, 2009, two of the Company's mortgage insurance subsidiaries, Republic Mortgage Insurance Company and Republic Mortgage Insurance Company of North Carolina (together "RMIC") filed a Complaint for Declaratory Judgment in the Supreme Court of the State of New York, County of New York, against Countrywide Financial Corporation, Countrywide Home Loans, Inc., The Bank of New York Mellon Trust Company, N.A., BAC Home Loans

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

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

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

On February 18, 2011, the Federal Deposit Insurance Corporation, as receiver of AmTrust Bank, filed a suit against Old Republic Insurance Company ("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 (Federal Deposit Insurance Corporation v. Old Republic Insurance Company) 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 million, declaratory relief, pre-and post-judgment interest, attorneys' fees and costs.

Three purported class action suits alleging RESPA violations were filed, on December 9, 2011, December 30, 2011 and January 13, 2012, in the Federal District Courts for the Central District of California, Eastern District of Pennsylvania and Western District of Pennsylvania, respectively. The suits target J.P. Morgan Chase Bank, N.A., the PNC Financial Services Group, Inc. as successor to National City Bank, N.A. and Citibank, N.A., respectively, each of their wholly-owned captive insurance subsidiaries and a number of the mortgage guaranty insurance companies, including RMIC. (Samp, Komarchuk, Whitaker v. J.P. Morgan Chase Bank, N.A. et al.; White, Hightower v. The PNC Financial Services Group, Inc. et al.; Menichino v. Citibank, N.A., et al.) The lawsuits, filed by the same law firms in each case, are substantially identical in alleging that the mortgage guaranty insurers had reinsurance arrangements with the defendant banks' captive insurance subsidiaries under which payments were made in violation

of the anti-kickback and fee splitting prohibitions of Sections 8(a) and 8(b) of RESPA. Each of the three suits seeks unspecified damages, costs, fees and the return of the allegedly improper payments. A class has not been certified in any of the three suits.

On January 27, 2012, a purported national class action suit was filed in the Federal District Court, Northern District of California, Oakland Division by the same plaintiff and the same law firm that filed the suit against ORHP, noted above. This second suit names as defendants the Company and five of its subsidiaries (Campion v. Old Republic International Corporation, Old Republic Home Protection Company, Inc., Old Republic National Title Insurance Company, Mississippi Valley Title Insurance Company, American Guaranty Title Insurance Company, and Republic Mortgage Insurance Company). The suit alleges unfair, unlawful and fraudulent business practices in violation of California's Business & Professions Code -- substantially similar to the allegations in plaintiff's suit against ORHP in the Federal District Court for the Southern District of California -- and the payment of commissions and kickbacks in violation of the California Insurance Code and RESPA. The suit seeks declaratory injunctive relief, restitution and treble damages in unspecified amounts, and costs and fees.

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 condition, results of operations, or cash flows, though there can be no assurance in those regards. Nor is the Company able to make a reasonable estimate or range of estimates of any potential liability under these lawsuits, the counterclaim, and the arbitration, all of which seek unquantified damages, attorneys' fees, and expenses. It is also unclear what effect, if any, the run-off operations of RMIC and depletion of its capital will have in the actions against it.

Item 4 - [Removed and Reserved by the Securities and Exchange Commission]

PART II

Item 5 - Market for the Registrant's Common Equity, Related Security Holder Matters and Issuer Purchases of Equity Securities

The Company's common stock is traded on the New York Stock Exchange under the symbol "ORI". The high and low sales prices as reported on the New York Stock Exchange and cash dividends declared for each quarterly period during the past two years were as follows:

	Sales Price		Cash
	High	Low	Dividends
1st quarter 2010	\$12.75	\$10.02	\$.1725
2nd quarter 2010	15.50	12.11	.1725
3rd quarter 2010	14.06	11.78	.1725
4th quarter 2010	\$14.18	\$12.42	\$.1725
1st quarter 2011	\$13.92	\$11.62	\$.1750
2nd quarter 2011	13.28	11.57	.1750
3rd quarter 2011	12.20	8.68	.1750
4th quarter 2011	\$10.48	\$7.15	\$.1750

As of January 31, 2012, there were 2,514 registered holders of the Company's Common Stock. See Note 3(c) of the Notes to Consolidated Financial Statements for a description of certain regulatory restrictions on the payment of dividends by Old Republic's insurance subsidiaries.

Comparative Five Year Performance Graphs for Common Stock

The following tables, prepared on the basis of market and related data furnished by Standard & Poor's Total Return Service, reflects total market return data for the most recent five calendar years ended December 31, 2011. For purposes of the presentation, the information is shown in terms of \$100 invested at the close of trading on the last trading day preceding the first day of the fifth preceding year. The \$100 investment is deemed to have been made either in Old Republic Common Stock, in the S&P 500 Index of common stocks, or in an aggregate of the common shares of the Peer Group of publicly held insurance businesses selected by Old Republic. The cumulative total return assumes reinvestment of cash dividends on a pretax basis. The information utilized to prepare the following tables has been obtained from sources believed to be reliable, but no representation is made that it is accurate or complete in all respects.

Total return data is shown in two tables. The table for Peer Group 1 consists of the following publicly held corporations selected by the Company for its 2006 to 2011 comparison: Ace Limited, American Financial Group, Inc., The Chubb Corporation, Cincinnati Financial Corporation, First American Financial Corporation, Markel Corporation, MGIC Investment Corporation, Stewart Information Services Corporation, Travelers Companies, Inc., and XL Capital Ltd.

The Peer Group 2 table is included for comparative purposes. It consists of the following publicly held corporations selected by the Company for its 2005 to 2010 comparison as included in its 2010 Annual Report on Form 10-K: Ace Limited, American Financial Group, Inc., The Chubb Corporation, Cincinnati Financial Corporation, First American Financial Corporation, Markel Corporation, MGIC Investment Corporation, PMI Group Inc., Stewart Information Services Corporation, Travelers Companies, Inc., and XL Capital Ltd. Peer Group 2 is comprised of the same

companies as in Peer Group 1 except that the PMI Group Inc. was removed from Peer Group 1 for all years presented following its bankruptcy filing in 2011.

The composition of the Peer Group companies has been approved by the Compensation Committee.

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Comparison of Five Year Total Market Return

OLD REPUBLIC INTERNATIONAL CORPORATION vs. S&P 500 vs. Peer Group 1

(For the five years ended December 31, 2011)

	Dec 06	Dec 07	Dec 08	Dec 09	Dec 10	Dec 11
ORI	\$100.00	\$68.44	\$55.87	\$50.14	\$71.74	\$52.16
S&P 500	100.00	105.49	66.46	84.05	96.71	98.76
Peer Group 1	100.00	94.50	74.22	83.15	100.22	109.15

Comparison of Five Year Total Market Return

OLD REPUBLIC INTERNATIONAL CORPORATION vs. S&P 500 vs. Peer Group 2

(For the five years ended December 31, 2011)

	Dec 06	Dec 07	Dec 08	Dec 09	Dec 10	Dec 11
ORI	\$100.00	\$68.44	\$55.87	\$50.14	\$71.74	\$52.16
S&P 500	100.00	105.49	66.46	84.05	96.71	98.76
Peer Group 2	100.00	92.47	72.03	80.72	97.31	105.35

Item 6 - Selected Financial Data (\$ in millions, except share data)

	December 31,				
	2011	2010	2009	2008	2007
FINANCIAL POSITION:					
Cash and Invested Assets (a)	\$10,685.2	\$10,490.7	\$9,879.0	\$8,855.1	\$8,924.0
Other Assets	5,365.2	5,391.9	4,310.9	4,410.9	4,366.5
Total Assets	\$16,050.4	\$15,882.7	\$14,190.0	\$13,266.0	\$13,290.6
Liabilities, Other than Debt	\$11,365.0	\$11,286.2	\$9,951.8	\$9,292.6	\$8,684.9
Debt	912.8	475.0	346.7	233.0	64.1
Total Liabilities	12,277.8	11,761.3	10,298.6	9,525.7	8,749.0
Preferred Stock	—	—	—	—	—
Common Shareholders' Equity	3,772.5	4,121.4	3,891.4	3,740.3	4,541.6
Total Liabilities and Shareholders' Equity	\$16,050.4	\$15,882.7	\$14,190.0	\$13,266.0	\$13,290.6
Total Capitalization (b)	\$4,685.4	\$4,596.4	\$4,238.2	\$3,973.4	\$4,605.7
	Years Ended December 31,				
	2011	2010	2009	2008	2007
RESULTS OF OPERATIONS:					
Net Premiums and Fees Earned	\$4,050.1	\$3,573.5	\$3,388.9	\$3,318.1	\$3,601.2
Net Investment and Other Income	479.8	420.0	408.3	406.0	419.3
Realized Investment Gains (Losses)	115.5	109.1	6.3	(486.4)	70.3
Net Revenues	4,645.5	4,102.7	3,803.6	3,237.7	4,091.0
Benefits, Claims, and Settlement Expenses	2,746.3	2,265.3	2,598.9	2,715.7	2,166.2
Underwriting and Other Expenses	2,135.9	1,809.7	1,478.3	1,341.2	1,546.3
Pretax Income (Loss)	(236.7)	27.6	(273.6)	(819.2)	378.4
Income Taxes (Credits)	(96.1)	(2.5)	(174.4)	(260.8)	105.9
Net Income (Loss)	\$(140.5)	\$30.1	\$(99.1)	\$(558.3)	\$272.4
COMMON SHARE DATA:					
Net Income (Loss):					
Basic	\$(.55)	\$.13	\$(.42)	\$(2.41)	\$1.18
Diluted	\$(.55)	\$.13	\$(.42)	\$(2.41)	\$1.17
Dividends: Cash	\$.70	\$.69	\$.68	\$.67	\$.63
Book Value	\$14.76	\$16.16	\$16.49	\$15.91	\$19.71
Common Shares (thousands):					
Outstanding	255,681	255,045	235,995	235,031	230,472
Average: Basic	255,045	241,075	235,657	231,484	231,370
Diluted	255,045	241,327	235,657	231,484	232,912

(a) Consists of cash, investments and accrued investment income.

(b) Total capitalization consists of debt, preferred stock, and common shareholders' equity.

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Item 7 - Management Analysis of Financial Position and Results of Operations

(\$ 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 1.8% of consolidated operating revenues for the year ended December 31, 2011 and 1.6% of consolidated assets as of that date, is included within the corporate and other caption of this report.

The consolidated accounts are presented in conformity with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") of accounting principles generally accepted in the United States of America ("GAAP"). As a publicly held company, Old Republic utilizes GAAP largely to comply with the financial reporting requirements of the Securities and Exchange Commission ("SEC"). From time to time the FASB and the SEC issue various releases most of which require additional financial statement disclosures and provide related application guidance. Of particular relevance to the Company's financial statements 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. More recently, the FASB also issued new guidance relative to the calculation of deferred acquisition costs incurred by insurance entities and goodwill impairment. 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 annual report to the SEC on Form 10-K.

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, 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 elsewhere in this report.

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

Old Republic's consolidated net operating loss for 2011 reached \$218.5 compared to \$40.6 in 2010 and \$157.2 in 2009. In the aggregate, the general and title insurance segments reflected substantial operating improvements as underwriting accounts turned positive for the first time since 2007. By contrast, the run-off mortgage guaranty business sustained record-high operating losses as incurred claim costs intensified greatly throughout 2011. These results outweighed the better outcomes posted by the general and title insurance segments.

While 2011 realized gains were approximately 10 percent higher than 2010, they were insufficient to drive bottom line results into positive territory.

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

Years Ended December 31,	2011	2010	2009	% Change		
				2011 vs. 2010	2010 vs. 2009	
Operating revenues:						
General insurance	\$2,547.1	\$2,074.9	\$2,052.7	22.8	% 1.1	%
Mortgage guaranty	506.1	588.4	746.1	(14.0)	) (21.1)
Title insurance	1,391.8	1,238.8	914.1	12.3	35.5	
Corporate and other	84.8	91.2	84.3	(7.0)	) 8.3	
Total	\$4,529.9	\$3,993.5	\$3,797.2	13.4	% 5.2	%
Pretax operating income (loss):						
General insurance	\$304.3	\$172.7	\$200.1	76.2	% (13.7)%
Mortgage guaranty	(678.1)	) (260.8	) (486.4	) (160.0	) 46.4	
Title insurance	36.2	9.4	2.1	284.5	328.7	
Corporate and other	(14.6)	) (2.8	) 4.0	(407.4	) (171.7)
Sub-total	(352.2)	) (81.5	) (279.9	) (332.2	) 70.9	
Realized investment gains (losses):						
From sales	165.8	110.3	15.9			
From impairments	(50.2)	) (1.2	) (9.5)		
Net realized investment gains (losses)	115.5	109.1	6.3	5.9	N/M	
Consolidated pretax income (loss)	(236.7)	) 27.6	(273.6)	) N/M	110.1	
Income taxes (credits)	(96.1)	) (2.5	) (174.4	) N/M	98.5	
Net income (loss)	\$(140.5)	) \$30.1	\$(99.1)	) N/M	130.4	%
Consolidated underwriting ratio:						
Benefits and claim ratio	67.8	% 63.4	% 76.7	% 6.9	% (17.3)%
Expense ratio	48.0	48.0	41.8	—	14.8	
Composite ratio	115.8	% 111.4	% 118.5	% 3.9	% (6.0)%
Diluted earnings per share:						
Net operating income (loss)	\$(0.86)	) \$(0.16	) \$(0.67	) N/M	76.1	%
Net realized investment gains (losses)	0.31	0.29	0.25			
Net income (loss)	\$(0.55)	) \$0.13	\$(0.42)	) N/M	131.0	%
Cash dividends paid per share	\$0.70	\$0.69	\$0.68	1.4	% 1.5	%
Components of diluted earnings per share:						
Net operating income (loss):						
General insurance	\$0.82	\$0.50	\$0.63			
Mortgage guaranty	(1.74)) (0.69) (1.32)		

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Title insurance	0.10		0.03		0.01
Corporate and other	(0.04)	—		0.01
Subtotal	(0.86)	(0.16)	(0.67)
Net realized investment gains (losses)	0.31		0.29		0.25
Net income (loss)	\$(0.55)	\$0.13		\$(0.42)

N/M: Not meaningful

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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 or losses follows:

Years Ended December 31,	2011	2010	2009
Realized gains (losses) from sales of previously impaired securities:			
Actual tax basis (loss) on sales	\$(154.7	) \$(44.0) \$—
Accounting adjustment for impairment charges taken in prior periods	157.5	72.2	—
Net amount included herein	2.8	28.2	—
Net realized gains (losses) from sales of all other securities	163.0	82.1	