

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.

2

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	\$3,769	\$3,779	\$3,229	\$3,222	\$3,175	\$2,924	\$2,414	\$2,182	\$1,964	\$1,802	\$1,678	
expenses(2):												
Paid (cumulative)												
(c) 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												
(e) (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	6.0	%										
(deficiency) for												
all year-ends												

(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.

24

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.

27

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.

29

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

31

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	15.9
Net gain (loss) from actual sales	165.8	110.3	15.9
Net realized losses from impairments	(50.2)	(1.2)	(9.5)
Net realized investment gains (losses) reported herein	\$115.5	\$109.1	\$6.3

General Insurance Results - 2011 operating earnings were affected positively by much lower incurred claim costs, slightly lower production expenses, and by the inclusion of PMA's accounts for the entire year. Corresponding results for 2010 and 2009 were affected by lower underwriting performance driven generally by reduced premium volume and moderately higher claim costs and expenses. Key indicators of this segment's year-over-year performance follow:

Years Ended December 31,	General Insurance Group			% Change		
	2011	2010	2009	2011 vs. 2010	2010 vs. 2009	
Net premiums earned	\$2,167.7	\$1,782.1	\$1,782.5	21.6	% —	%
Net investment income	270.5	260.1	258.9	4.0	.5	
Benefits and claims costs	1,544.8	1,361.8	1,360.3	13.4	.1	
Pretax operating income (loss)	\$304.3	\$172.7	\$200.1	76.2	% (13.7)	%
Claim ratio	71.3	% 76.4	% 76.3	% (6.7)	% .1	%
Expense ratio	25.6	26.6	25.8	(3.8)	3.1	
Composite ratio	96.9	% 103.0	% 102.1	% (5.9)	% .9	%

Full year 2011 inclusion of the PMA-related accounts resulted in approximate increases of \$308.7 in net premiums earned, \$16.1 in net investment income, \$212.0 in benefits and claim costs, and \$34.0 in pretax operating income. 2010 results reflect PMA's contribution for just the final quarter. Excluding the latter's accounts for both 2011 and 2010, the remainder of general insurance net premium revenues reflected growth of approximately 4.5 percent for 2011. As reported in the past several years, the combination of ongoing recessionary conditions and a generally soft pricing environment in the commercial insurance arena has generally constrained premium growth. In more recent quarters, however, premium rates have strengthened gradually and to varying degrees in certain parts of the Company's general insurance business. At the least, these pricing improvements should help counterbalance ongoing inflationary pressures on a variety of claim costs most susceptible to them.

As summarized in the above table, aggregate insurance underwriting performance improved during 2011. Much of the gain stemmed from lower incurred claims in the consumer credit indemnity ("CCI") line which has been in run-off operating mode since 2008. The CCI coverage produced more adverse claim experience during 2010 and 2009 as a result of higher loss payment trends and increased levels of claim verification and resolution activity. In this regard, CCI claims experience burdened the overall general insurance claim ratio by 2.1, 8.6, and 7.3 percentage points in 2011, 2010, and 2009, respectively.

While the 2010 PMA merger produced a meaningful addition to the general insurance invested asset base, investment income has not grown proportionally. For each of the years 2009 to 2011, lower market yields and the relatively short-term orientation of the segment's investment portfolio have constrained income growth from this source.

Mortgage Guaranty Results - 2011 operating performance was mostly affected by a continued downtrend in earned premiums and record-high incurred claim costs. Key indicators of year-over-year performance follow:

	Mortgage Guaranty Group			% Change	
	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
Years Ended December 31,					
Net premiums earned	\$444.9	\$498.8	\$644.5	(10.8)%	(22.6)%
Net investment income	59.2	84.9	92.0	(30.3)	(7.6)
Claim costs	1,057.1	766.2	1,134.1	38.0	(32.4)
Pretax operating income (loss)	\$(678.1)	\$(260.8)	\$(486.4)	(160.0)%	46.4 %
Claim ratio	237.6	% 153.6	% 176.0	% 54.7	% (12.7)%
Expense ratio	23.9	14.4	12.6	66.0	14.3
Composite ratio	261.5	% 168.0	% 188.6	% 55.7	% (10.9)%

During 2010 and 2009, Old Republic's mortgage guaranty subsidiaries had negotiated the terminations of various captive reinsurance and pool insurance contracts. From a financial accounting standpoint, premiums obtained with terminations of captive reinsurance agreements are recognized as income when they are received rather than being deferred to future periods when the related claim costs are expected to arise. On the other hand, terminations of pool insurance contracts cause a reduction of incurred claims due to the positive effect of reserves transferred, but negative cash flows ensue. Taken together, these terminations had the following effects on key elements of reported results and operating cash flows.

Years Ended December 31,	2010	2009
Increase in net premiums earned	\$13.6	\$82.5
Reduction in incurred claim costs	51.8	—
Increase in pretax operating income (loss)	65.4	79.4
Effect on operating cash flows	\$(173.2)	\$78.4

No similarly significant transactions occurred during 2011.

Since the advent of the current economic crisis, new mortgage guaranty production has not added significantly to the Company's net risk in force base. Ongoing weakness from the downturn in overall mortgage originations, lower industry-wide penetration of the nation's current mortgage market, and the effects of more selective underwriting guidelines employed since late 2007 have been contributing factors. Together with premium refunds related to claim rescissions and the above-noted termination of pool insurance contracts which effectively ended subsequent periods' premium inflows, these factors led to a continued decline in earned premiums during the periods reported upon. As noted below, the Company's mortgage guaranty business was placed in run-off operating mode during the third quarter of 2011, thus further reducing new premium production.

Net investment income declined in each of the past three years as a result of the lower invested asset base driven by the aggregate effect of higher claim disbursements, lower premium volume, termination of insured mortgage pools, and a low yield environment for quality securities to which the investment portfolio is directed.

The above-noted impact of captive and pool transactions premiums and claims notwithstanding, mortgage guaranty claim costs rose by 29.2 percent in 2011 and declined by 27.9 percent in 2010. While newly reported defaults have generally been in a downtrend, other offsetting factors have led to historically high claim costs. The combination of higher claim payments, and changes in actual and estimated claim rescissions or denials on new and previously reported defaults are most accountable for the variability of claim costs. The following table shows the major components of the resulting claim ratios inclusive of the above-noted effects of captive reinsurance and pool insurance contract terminations.

Years Ended December 31,	2011	2010	2009
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Components of incurred claim ratio as a percent of earned premiums:

Paid claims:

Excluding captive and pool transactions	238.3	%	190.4	%	110.4	%
Captive and pool transactions	(.7	)	31.8	(24.9)	
Paid claim ratio	237.6		222.2	85.5		

Claim reserve provisions:

Excluding captive and pool transactions	(.1	)	(21.8	)	91.4	
Captive and pool transactions	.1		(46.8	)	(.9)
Claim reserve provision ratio	—		(68.6	)	90.5	

Incurred claim ratio: As reported

Excluding captive and pool transactions	237.6	%	153.6	%	176.0	%
	238.2	%	168.6	%	201.8	%

The 2011 expense ratios reflect non-recurring charges covering employment severance and similar costs, and the elimination of previously deferred acquisition costs no longer deemed recoverable in future run-off periods. The aggregate charges and their effect on 2011 expense ratios amounted to \$39.4 and 8.9 percentage points. Additionally, full year

2011 operating results reflect a third quarter \$10.7 write-off of the historical goodwill account. For 2010 and 2009, the expense ratios reflect moderate benefits from expense management.

As noted in prior periods' reports, the Company's flagship mortgage guaranty insurance carrier, Republic Mortgage Insurance Company ("RMIC"), had been operating pursuant to a waiver of minimum state regulatory capital requirements since late 2009. This waiver expired on August 31, 2011. As a consequence, underwriting of new policies ceased and the existing book of business was placed in run-off operating mode. On January 19, 2012, RMIC received an Order of Supervision ("Order") from the North Carolina Department of Insurance. Pursuant to the Order, RMIC has been instructed to hereafter reduce the cash payment on all claims by 50 percent during an initial period not to exceed one year. The remaining 50 percent is to be included in RMIC's statutory capital and will be paid at a future date as and when necessary funds are available. In these circumstances, the run-off will devolve within constraints of Old Republic's year-end 2011 investment of \$191.2 for its entire mortgage guaranty segment. Since no additional capital will be provided to this segment, Old Republic's future economic loss will be limited to that last amount, or 75 cents per ORI outstanding share at December 31, 2011.

The Company utilizes a proprietary model to forecast and evaluate the potential long-term performance of its book of business. Of necessity, the model takes into account actual premium and claim experience of prior periods, as well as a large number of assumptions and judgments about future outcomes that are highly sensitive to a wide range of estimates. Many of these relate to matters over which the Company has no control, including:

- The conflicted interests, as well as the mortgage servicing and foreclosure practices of a large number of insured lending institutions;
- General economic and industry-specific trends and events; and
- The evolving or future social and economic policies of the U.S. Government vis-à-vis such critical sectors as the banking, mortgage lending, and housing industries, as well as its policies for resolving the insolvencies and future role of Fannie Mae and Freddie Mac.

These matters notwithstanding, the Company's standard model of forecasted results extending through 2020 continues to reflect ultimate profitability for the book of business. While the establishment of a premium deficiency reserve is therefore unwarranted, the model nonetheless contemplates that results for years 2012-2013 will more likely than not reflect an operating loss far in excess of RMIC's and the segment's year-end 2011 statutory capital balance. The claim cost attenuation enabled by the above-noted Order could, however, mitigate or nullify the adverse effect of such losses on those statutory capital balances.

Recent years' poor mortgage guaranty results notwithstanding, Old Republic maintains a long-term strategic interest in this important line of insurance. Any re-activation of the business, however, will require greater clarity about the future roles of Fannie Mae and Freddie Mac, or any successor to them, as well as the establishment of industry-wide risk management disciplines that address the long term catastrophe exposures of these financial guaranties. At this juncture there is no indication that these matters will be addressed by the industry or government institutions, and thus no assurance that an economically viable re-activation of Old Republic's mortgage guaranty business will occur.

Title Insurance Results - Old Republic's title insurance business reflected positive operating momentum as 2011 came to a close. Key performance indicators are shown below:

Years Ended December 31,	Title Insurance Group			% Change		2010 vs. 2009	%
	2011	2010	2009	2011 vs. 2010	2010 vs. 2009		
Net premiums and fees earned	\$1,362.4	\$1,211.0	\$888.4	12.5	36.3		
Net investment income	27.3	26.5	25.2	3.0	5.4		
Claim costs	105.7	96.8	70.3	9.1	37.8		

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Pretax operating income (loss)	\$36.2	\$9.4	\$2.1	284.5	%	328.7	%
Claim ratio	7.8	% 8.0	% 7.9	% (2.5)%	1.3	%
Expense ratio	91.2	93.0	93.8	(1.9)	(.9)
Composite ratio	99.0	% 101.0	% 101.7	% (2.0	)%	(.7)%

Growth in premiums and fees benefitted from a combination of factors. Key among these have been market share gains emanating from title industry dislocations and consolidation during the past three years or so, and greater levels of refinancing activity in more recent times. 2011 claim ratios were slightly lower in relation to 2010's as claim frequency and severity abated. Year-over-year expense ratio comparisons benefitted from continued rationalization of the expense structure.

Corporate and Other Operations - The Company's small life and health business and the net costs associated with the parent holding company and its internal services subsidiaries produced losses for 2011 and 2010, whereas a small gain was posted in 2009. Variations in the results registered by these relatively minor elements of Old Republic's operations usually stem from volatility inherent to the small scale of its life and health business, fluctuations in the costs of external debt, and net interest expenses on intra-system financing arrangements. Key performance indicators are reflected in the following summary:

Years Ended December 31,	Corporate and Other Operations			% Change			
	2011	2010	2009	2011	2010		
				vs. 2010	vs. 2009		
Life & health premiums earned	\$74.9	\$81.4	\$73.3	(8.0	)%	11.0	%
Net investment income	7.4	7.3	7.2	2.4		.2	
Other income	2.4	2.5	3.6	(3.0	)	(30.1)
Benefits and claims	38.5	40.3	34.1	(4.6	)	18.3	
Insurance expenses	39.4	43.8	41.7	(10.0	)	5.2	
Corporate and other expenses-net	21.5	9.9	4.4	117.1		125.0	
Pretax operating income (loss)	\$(14.6	) \$(2.8	) \$4.0	(407.4	)%	(171.7)%

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

As of December 31,	2011	2010	2009	% Change			
				2011	2010		
				vs. 2010	vs. 2009		
Cash and invested assets: Fair value basis	\$10,685.2	\$10,490.7	\$9,879.0	1.9	%	6.2	%
Original cost basis	\$10,081.8	\$10,015.1	\$9,625.9	.7	%	4.0	%
Shareholders' equity: Total	\$3,772.5	\$4,121.4	\$3,891.4	(8.5	)%	5.9	%
Per common share	\$14.76	\$16.16	\$16.49	(8.7	)%	(2.0)%
Composition of shareholders' equity per share:							
Equity before items below	\$13.13	\$14.36	\$14.99	(8.6	)%	(4.2)%
Unrealized investment gains (losses) and other accumulated comprehensive income (loss)	1.63	1.80	1.50				
Total	\$14.76	\$16.16	\$16.49	(8.7	)%	(2.0)%

Consolidated cash flow from operating activities produced a deficit of \$94.9 for the year ended 2011 compared to a deficit of \$282.2 in 2010 and a positive operating cash flow of \$532.9 for 2009. Most of the year-over-year improvement in 2011 stemmed largely from improved operating cash flows in the general insurance segment.

The consolidated investment portfolio reflects a current allocation of approximately 80 percent to fixed-maturity securities and 6 percent to equities as of year end 2011. As has been the case for many years, Old Republic's invested assets are managed in consideration of enterprise-wide risk management objectives. These are intended to assure solid funding of its insurance subsidiaries' long-term obligations to policyholders and other beneficiaries, and the necessary long-term stability of capital accounts.

The investment portfolio contains no significant direct insurance risk-correlated asset exposures to real estate, mortgage-backed securities, collateralized debt obligations ("CDO's"), derivatives, junk bonds, hybrid securities, or illiquid private equity investments. In a similar vein, the Company does not engage in hedging or securities lending transactions, nor does it invest in securities whose values are predicated on non-regulated financial instruments exhibiting amorphous or unfunded counter-party risk attributes.

Old Republic's equity investments at December 31, 2011 include common stock holdings in MGIC Investment Corporation fair valued at \$50.3. These securities were acquired in 2007 and 2008 as passive long-term investment additions to a core segment of Old Republic's business and were written down from their original cost through impairments recorded between 2008 and December 2011.

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

35

Years Ended December 31,	Shareholders' Equity Per Share		
	2011	2010	2009
Beginning book value per share	\$16.16	\$16.49	\$15.91
Changes in shareholders' equity for the periods:			
Net operating income (loss)	(.86	) (.16	) (.67
Net realized investment gains (losses):			
From sales	.44	.29	.04
From impairments	(.13	) —	.21
Subtotal	.31	.29	.25
Net unrealized investment gains (losses)	.03	.40	1.59
Total realized and unrealized investment gains (losses)	.34	.69	1.84
Cash dividends	(.70	) (.69	) (.68
Stock issuance, foreign exchange, and other transactions	(.18	) (.17	) .09
Net change	(1.40	) (.33	) .58
Ending book value per share	\$14.76	\$16.16	\$16.49

2011 Capital Raise - In 2011's first quarter, the Company obtained gross proceeds of \$550.0 through a public offering of 3.75% convertible Senior Notes due in 2018. The funds were used to repay certain indebtedness assumed in connection with the 2010 acquisition of PMA Capital Corporation, and for other general corporate purposes.

DETAILED MANAGEMENT ANALYSIS

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

CRITICAL ACCOUNTING ESTIMATES

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

Old Republic believes that its most critical accounting estimates relate to: a) the determination of other-than-temporary impairments ("OTTI") in the value of fixed maturity and equity investments; b) the valuation of deferred income tax assets; c) the establishment of deferred acquisition costs which vary directly with the production of insurance premiums; d) the recoverability of reinsured paid and/or outstanding losses; and e) the establishment of reserves for losses and loss adjustment expenses. The major assumptions and methods used in setting these estimates are discussed in the pertinent sections of this Management Analysis and are summarized as follows:

(a) Other-than-temporary impairments in the value of investments:

The Company completes a detailed analysis each quarter to assess whether the decline in the value of any investment below its cost basis is deemed other-than-temporary. All securities in an unrealized loss position are reviewed. Absent issuer-specific circumstances that would result in a contrary conclusion, any equity security with any unrealized investment loss amounting to 20% or greater decline for a six month period is considered OTTI. The decline in value of a security deemed OTTI is included in the determination of net income and a new cost basis is established for financial reporting purposes.

For the three years ended December 31, 2011, pretax charges due to other-than-temporary impairments in the value of securities affected pretax income or loss within a range of -27.0% and -3.6% and averaged -11.6%.

(b) The valuation of deferred income tax assets

The Company uses the asset and liability method of calculating deferred income taxes. This method results in the establishment of deferred tax assets and liabilities, calculated at currently enacted tax rates that are applicable to the cumulative temporary differences between financial statement and tax bases of assets and liabilities. Deferred income tax assets are reduced by a valuation allowance when management determines that it is more likely than not that some, or all, of the deferred tax assets will not be realized. At December 31, 2011, 2010, and 2009, the net deferred tax asset (liability) was \$116.7, \$45.3, and \$(47.5), respectively. The Company recorded a valuation allowance against deferred tax assets of \$(12.2), \$(13.5), and \$- at each corresponding year end, respectively. In valuing the deferred tax assets, the Company considered certain factors including primarily the scheduled reversals of certain deferred tax liabilities, the impact of available carry back and carry forward periods, estimates of future taxable income, and our ability to exercise prudent and feasible tax planning strategies. A change in any of these estimates could result in the need to record an additional valuation allowance through a charge to earnings. See Note 1(j) of the Notes to Consolidated Financial Statements for further discussion of the Company's consolidated income tax balances.

(c) Establishment of deferred acquisition costs ("DAC")

The eligibility for deferral and the recoverability of DAC is based on the current terms and estimated profitability of the insurance contracts to which they relate. As of the three most recent year ends, consolidated DAC balances ranged between 1.2% and 1.5% and averaged 1.4% of consolidated assets. The annual change in DAC balances for the three-year period affected underwriting, acquisition and other expenses within a range of 1.1% and 1.6%, and averaged 1.3% of such expenses. These percentages are inclusive of the 2011 write-off of previously deferred mortgage guaranty acquisition costs of \$29.1 no longer deemed recoverable in future run-off periods.

(d) The recoverability of reinsured paid and/or outstanding losses

Assets consisting of gross paid losses recoverable from assuming reinsurers, and balance sheet date reserves similarly recoverable in future periods as gross losses are settled and paid, are established at the same time as the gross losses are paid or recorded as reserves. Accordingly, these assets are subject to the same estimation processes and valuations as the related gross amounts that are discussed below. As of the three most recent year ends, paid and outstanding reinsurance recoverable balances ranged between 30.1% and 34.5% and averaged 33.0% of the related gross reserves. See Part I, Item 1(d) for further discussion regarding recoverability of the Company's reinsurance balances.

(e) The reserves for losses and loss adjustment expenses

As discussed in pertinent sections of this management analysis, the reserves for losses and related loss adjustment expenses are based on a wide variety of factors and calculations. Among these the Company believes the most critical are:

The establishment of expected loss ratios for at least the two to three most recent accident years, particularly for so-called long-tail coverages as to which information about covered losses emerges and becomes more accurately quantifiable over long periods of time. Long-tail lines of business generally include workers' compensation, auto liability, general liability, errors and omissions and directors and officers' liability, and title insurance. Gross loss reserves related to such long-tail coverages ranged between 66.0% and 76.5%, and averaged 72.7% of gross consolidated claim reserves as of the three most recent year ends. Net of reinsurance recoverables, such reserves ranged between 60.1% and 69.0% and averaged 65.9% as of the same dates.

Loss trend factors that are used to establish the above noted expected loss ratios. These factors take into account such variables as judgments and estimates relative to premium rate trends and adequacy, current and expected interest rates, current and expected social and economic inflation trends, and insurance industry statistical claim trends.

Loss development factors, expected claim rates and average claim costs, all of which are based on Company and/or industry statistics used to project reported and unreported losses for each accounting period.

For the most recent calendar year, prior accident years' consolidated claim costs developed unfavorably while the two preceding years developed favorably. This development had the consequent effect of (increasing) or reducing consolidated annual loss costs for the three most recent years within a range of -4.7% and 7.2%, or by an average of approximately 2.0% per annum. As a percentage of each of these years' consolidated earned premiums and fees the (unfavorable) favorable developments have ranged between -3.0% and 5.9%, and have averaged 1.7%. Most of the variances in prior years' positive or negative claim developments have been due to a highly volatile mortgage guaranty and CCI claim environment.

In all the above regards the Company anticipates that future periods' financial statements will continue to reflect changes in estimates. As in the past such changes will result from altered circumstances, the continuum of newly emerging information and its effect on past assumptions and judgments, the effects of securities markets valuations, and changes in inflation rates and future economic conditions beyond the Company's control. As a result, Old Republic cannot predict, quantify, or guaranty the likely impact that probable changes in estimates will have on its future financial condition or results of operations.

FINANCIAL POSITION

The Company's financial position at December 31, 2011 reflected increases in assets and liabilities of 1.1% and 4.4%, respectively, and a decrease in common shareholders' equity of 8.5% when compared to the immediately preceding year-end. Cash and invested assets represented 66.6% and 66.1% of consolidated assets as of December 31, 2011 and 2010, respectively. As of December 31, 2011, the cash and invested asset base rose by 1.9% to \$10,685.2 principally due to net proceeds of a public offering of convertible senior notes in early 2011.

Investments - During 2011 and 2010, the Company committed the majority of investable funds to short to intermediate-term fixed maturity securities. At both December 31, 2011 and 2010, approximately 99% of the Company's investments consisted of marketable securities. Old Republic continues to adhere to its long-term policy of investing primarily in investment grade, marketable securities. The portfolio contains no significant 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. At December 31, 2011, the Company had no fixed maturity investments in default as to principal and/or interest.

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

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

avoided. Market value risk is limited through the purchase of bonds of intermediate maturity. The combination of these investment management practices is expected to produce a more stable long-term fixed maturity investment portfolio that is not subject to extreme interest rate sensitivity and principal deterioration.

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

Possible future declines in fair values for Old Republic's bond and stock portfolios would negatively affect the common shareholders' equity account at any point in time, but would not necessarily result in the recognition of realized investment losses. The Company reviews the status and fair value changes of each of its investments on at least a quarterly basis during the year, and estimates of other-than-temporary impairments in the portfolio's value are evaluated and established at each quarterly balance sheet date. In reviewing investments for other-than-temporary impairment, the Company, in addition to a security's market price history, considers the totality of such factors as the issuer's operating results, financial condition and liquidity, its ability to access capital markets, credit rating trends, most current audit opinion, industry and securities markets conditions, and analyst expectations to reach its conclusions. Sudden fair value declines caused by such adverse developments as newly emerged or imminent bankruptcy filings, issuer default on significant obligations, or reports of financial accounting developments that bring into question the validity of previously reported earnings or financial condition, are recognized as realized losses as soon as credible publicly available information emerges to confirm such developments. Absent issuer-specific circumstances that would result in a contrary conclusion, any equity security with an unrealized investment loss amounting to a 20% or greater decline for a six month period is considered other-than-temporarily-impaired. In the event the Company's estimate of other-than-temporary impairments is insufficient at any point in time, future periods' net income (loss) would be affected adversely by the recognition of additional realized or impairment losses, but its financial condition would not necessarily be affected adversely inasmuch as such losses, or a portion of them, could have been recognized previously as unrealized losses.

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

Credit Quality Ratings of Fixed Maturity Securities (a)

	December 31,			
	2011	2010	%	%
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		

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All other (b)	.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 (a) issuers and by Standard & Poor's ("S&P") for U.S. and Canadian Municipal issuers, which are converted to equivalent Moody's ratings classifications.

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

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

	December 31, 2011	
	Amortized Cost	Gross Unrealized Losses
Fixed Maturity Securities by Industry Concentration:		
Services	\$1.9	\$.4
Basic Industry	4.0	.3
Banking	6.4	.2
Industrial	9.6	.2
Energy	5.7	—
Total	\$27.9	(c) \$1.2

(c) Represents .4% of the total fixed maturity securities portfolio.

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

	December 31, 2011	
	Amortized Cost	Gross Unrealized Losses
Fixed Maturity Securities by Industry Concentration:		
Banking	\$28.1	\$1.2
Technology	54.5	.7
Finance	36.5	.6
Insurance	23.2	.6
Other (includes 16 industry groups)	279.7	2.8
Total	\$422.3	(d) \$6.0

(d) Represents 5.4% of the total fixed maturity securities portfolio.

Gross Unrealized Losses Stratified by Industry Concentration for Equity Securities

	December 31, 2011	
	Adjusted Cost	Gross Unrealized Losses
Equity Securities by Industry Concentration:		
Index Funds	\$100.9	\$3.9
Banking	1.3	.4
Telecommunications	.7	.2
Insurance	—	—
Total	\$103.1	(e) \$4.6 (f)

(e) Represents 30.2% of the total equity securities portfolio.

(f) Represents 1.4% of the cost of the total equity securities portfolio, while gross unrealized gains represent 71.2% of the portfolio.

40

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

	December 31, 2011 Amortized Cost of Fixed Maturity Securities		Gross Unrealized Losses	
	All	Non- Investment Grade Only	All	Non- Investment Grade Only
Maturity Ranges:				
Due in one year or less	\$23.2	\$—	\$—	\$—
Due after one year through five years	129.2	13.1	1.5	.4
Due after five years through ten years	266.4	12.8	4.5	.3
Due after ten years	31.3	1.9	1.2	.4
Total	\$450.3	\$27.9	\$7.2	\$1.2

Gross Unrealized Losses Stratified by Duration and Amount of Unrealized Losses

	December 31, 2011 Amount of Gross Unrealized Losses			Total Gross Unrealized Loss	
	Less than 20% of Cost	20% to 50% of Cost	More than 50% of Cost		
Number of Months in Loss Position:					
Fixed Maturity Securities:					
One to six months	\$6.0	\$—	\$—	\$6.0	
Seven to twelve months	.4	.4	—	.9	
More than twelve months	—	.2	—	.2	
Total	\$6.5	\$.7	\$—	\$7.2	
Equity Securities:					
One to six months	\$3.9	\$.2	\$—	\$4.1	
Seven to twelve months	—	.4	—	.4	
More than twelve months	—	—	—	—	
Total	\$3.9	\$.6	\$—	\$4.6	
Number of Issues in Loss Position:					
Fixed Maturity Securities:					
One to six months	116	—	—	116	
Seven to twelve months	10	1	—	11	
More than twelve months	3	1	—	4	
Total	129	2	—	131	(g)
Equity Securities:					
One to six months	3	1	—	4	
Seven to twelve months	—	1	—	1	
More than twelve months	—	—	1	1	
Total	3	2	1	6	(g)

(g) At December 31, 2011 the number of issues in an unrealized loss position represent 7.1% as to fixed maturities, and 14.3% as to equity securities of the total number of such issues held by the Company.

The aging of issues with unrealized losses employs balance sheet date fair value comparisons with an issue's original cost net of other-than-temporary impairment adjustments. The percentage reduction from such adjusted cost reflects the decline as of a specific point in time (December 31, 2011 in the above table) and, accordingly, is not indicative of a security's value having been consistently below its cost at the percentages shown nor throughout the periods shown.

Age Distribution of Fixed Maturity Securities

	December 31,			
	2011	2010		
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		
Total	100.0	% 100.0	%	
Average Maturity in Years	5.0	4.6		
Duration (h)	4.2	3.8		

Duration is used as a measure of bond price sensitivity to interest rate changes. A duration of 4.2 as of December (h)31, 2011 implies that a 100 basis point parallel increase in interest rates from current levels would result in a possible decline in the fair value of the long-term fixed maturity investment portfolio of approximately 4.2%.

Composition of Unrealized Gains (Losses)

	December 31,			
	2011	2010		
Fixed Maturity Securities:				
Amortized cost	\$7,884.6	\$8,070.4		
Estimated fair value	8,393.2	8,532.2		
Gross unrealized gains	515.9	487.0		
Gross unrealized losses	(7.2	) (25.3)	
Net unrealized gains (losses)	\$508.6	\$461.7		
Equity Securities:				
Original cost	\$480.5	\$648.3		
Adjusted cost(*)	341.9	402.8		
Estimated fair value	580.8	672.4		
Gross unrealized gains	243.5	271.7		
Gross unrealized losses	(4.6	) (2.2)	
Net unrealized gains (losses)	\$238.9	\$269.5		

(*) net of OTTI adjustments

Other Assets - Among other major assets, substantially all of the Company's receivables are not past due. Reinsurance recoverable balances on paid or estimated unpaid losses are deemed recoverable from solvent reinsurers or have otherwise been reduced by allowances for estimated amounts unrecoverable. Deferred policy acquisition costs are estimated by taking into account the variable costs of producing specific types of insurance policies, and evaluating

their recoverability on the basis of recent trends in claims costs. Aside from the 2011 write-off of certain mortgage guaranty balances as discussed in the Executive Summary and Note 1(f) of the Notes to Consolidated Financial Statements, the Company's deferred policy acquisition cost balances have not fluctuated substantially from period-to-period. Deferred policy acquisition costs do not represent significant percentages of assets or shareholders' equity.

Liquidity - The parent holding company meets its liquidity and capital needs principally through dividends paid by its subsidiaries. The insurance subsidiaries' ability to pay cash dividends to the parent company is generally restricted by law or subject to approval of the insurance regulatory authorities of the states in which they are domiciled. The Company can receive up to \$361.4 in dividends from its subsidiaries in 2012 without the prior approval of regulatory authorities. The liquidity achievable through such permitted dividend payments is considered adequate to cover the parent holding company's currently expected cash outflows represented mostly by interest and scheduled repayments on outstanding debt, quarterly cash dividend payments to shareholders, modest operating expenses, and the near-term capital needs of its operating company subsidiaries.

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.

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. 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 the Notes. The Order makes RMIC's statutory insolvency less likely. However, the Order could be amended or withdrawn by the NCDOI at any time or allowed to lapse after a year's time. There can be no assurance that the Order will save RMIC from becoming statutorily impaired at a later date and being placed in receivership by the NCDOI.

At December 31, 2011, the Company had sufficient liquid resources available to redeem the 8.0% Notes and a substantial portion of the 3.75% Notes. Management is exploring a number of options to address its liquidity needs in the circumstance that an event of default was to occur at a future date. These potential plans include an amendment to the 3.75% Notes removing RMIC from the definition of a Significant Subsidiary, an additional capital raise through issuance of new straight or convertible debt, or the utilization of intra system dividend capacity. While Management is confident that an event of default can be stemmed, there is no assurance that its impact could be addressed through execution of these plans.

Capitalization - Old Republic's total capitalization of \$4,685.4 at December 31, 2011 consisted of debt of \$912.8 and common shareholders' equity of \$3,772.5. Changes in the common shareholders' equity account reflect primarily operating results for the period then ended and dividend payments.

Old Republic has paid cash dividends to its shareholders without interruption since 1942, and has increased the annual rate in each of the past 30 calendar years. The dividend rate is reviewed and approved by the Board of Directors on a quarterly basis each year. In establishing each year's cash dividend rate the Company does not follow a strict formulaic approach. Rather, it favors a gradual rise in the annual dividend rate that is largely reflective of long-term consolidated operating earnings trends. Accordingly, each year's dividend rate is set judgmentally in consideration of such key factors as the dividend paying capacity of the Company's insurance subsidiaries, the trends in average annual statutory and GAAP earnings for the five most recent calendar years, and management's long-term expectations for the Company's consolidated business and its individual segments.

Under state insurance regulations, the Company's three mortgage guaranty insurance subsidiaries are required to operate at a maximum risk to capital ratio of 25:1 or otherwise hold minimum amounts of capital based on specified formulas. As noted in prior periods' reports, 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 previously noted, underwriting of new policies consequently ceased as of that date and the existing book of business was placed in run-off operating mode.

Contractual Obligations - The following table shows certain information relating to the Company's contractual obligations as of December 31, 2011:

	Payments Due in the Following Years				
	Total	2012	2013 and 2014	2015 and 2016	2017 and After
Contractual Obligations:					
Debt	\$912.8	\$319.8	\$7.9	\$6.8	\$578.1
Interest on Debt	171.8	35.4	44.3	43.7	48.3
Operating Leases	204.6	56.0	84.4	37.1	27.0
Pension Benefits Contributions (a)	123.9	23.1	55.3	38.6	6.8
Claim & Claim Expense Reserves (b)	8,786.6	2,569.0	2,326.7	841.9	3,049.0
Total	\$10,199.9	\$3,003.4	\$2,518.7	\$968.2	\$3,709.4

Represents estimated minimum funding of contributions for the Old Republic International Salaried Employees Restated Retirement Plan (the Old Republic Plan), the Bituminous Casualty Corporation Retirement Income Plan (the Bitco Plan), the Old Republic National Title Group Pension Plan (the Title Plan), and the PMA Capital Corporation Pension Plan (the PMA Plan). Funding of the plans is dependent on a number of factors including actual performance versus actuarial assumptions made at the time of the actuarial valuations, as well as, maintaining certain funding levels relative to regulatory requirements.

Amounts are reported gross of reinsurance. As discussed herein with respect to the nature of loss reserves and the estimating process utilized in their establishment, the Company's loss reserves do not have a contractual maturity date. Estimated gross loss payments are based primarily on historical claim payment patterns, are subject to change due to a wide variety of factors, do not reflect anticipated recoveries under the terms of reinsurance contracts, and cannot be predicted with certainty. Actual future loss payments may differ materially from the current estimates shown in the table above.

RESULTS OF OPERATIONS

Revenues: Premiums & Fees

Pursuant to GAAP applicable to the insurance industry, revenues are recognized as follows:

Substantially all general insurance premiums pertain to annual policies and are reflected in income on a pro-rata basis in association with the related benefits, claims and expenses. Earned but unbilled premiums are generally taken into income on the billing date, while adjustments for retrospective premiums, commissions and similar charges or credits are accrued on the basis of periodic evaluations of current underwriting experience and contractual obligations.

The Company's mortgage guaranty premiums primarily stem from monthly installments paid on long-duration, guaranteed renewable insurance policies. Substantially all such premiums are written and earned in the month coverage is effective. With respect to relatively few annual or single premium policies, earned premiums are largely recognized on a pro-rata basis over the terms of the policies. As described more fully in the Mortgage Guaranty Group's Risk Factors for premium income and long-term claim exposures, revenue recognition for insured loans is not appropriately matched to the risk exposure and the consequent recognition of both normal and catastrophic loss occurrences.

Title premium and fee revenues stemming from the Company's direct operations (which include branch offices of its title insurers and wholly owned agency subsidiaries) represent approximately 33% of 2011 consolidated title business revenues. Such premiums are generally recognized as income at the escrow closing date which approximates the policy effective date. Fee income related to escrow and other closing services is recognized when the related services have been performed and completed. The remaining 67% of consolidated title premium and fee revenues is produced by independent title agents and underwritten title companies. Rather than making estimates that could be subject to significant variance from actual premium and fee production, the Company recognizes revenues from those sources upon receipt. Such receipts can reflect a three to four month lag relative to the effective date of the underlying title policy, and are offset concurrently by production expenses and claim reserve provisions.

The major sources of Old Republic's consolidated earned premiums and fees for the periods shown were as follows:

	Earned Premiums and Fees					% Change from prior period	
	General	Mortgage	Title	Other	Total		
Years Ended December 31:							
2009	\$1,782.5	\$644.5	\$888.4	\$73.3	\$3,388.9	2.1	%
2010	1,782.1	498.8	1,211.0	81.4	3,573.5	5.4	
2011	\$2,167.7	\$444.9	\$1,362.4	\$74.9	\$4,050.1	13.3	%

General Insurance Group earned premiums increased in 2011 reflecting inclusion of PMA premiums of \$412.4 for a full year during 2011 versus \$103.7 in the final quarter of 2010. Excluding PMA's contribution, the remainder of the group's earned premiums reflected growth of 4.5% during 2011. As reported in the past several years, the combination

of ongoing recessionary economic conditions and a generally soft pricing environment in the commercial insurance arena has generally constrained premium growth in recent years. 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. At the least, these pricing improvements should help counterbalance ongoing inflationary pressures on a variety of claim costs most susceptible to them.

Mortgage Guaranty Group earned premiums continued to decline during 2011 due to lower volumes of new insurance written, a continuation of elevated levels of premium refunds related to claim rescissions, the termination of certain pool insurance contracts in 2010, and the termination of new insurance underwriting effective August 31, 2011. Declining premium revenue trends for the past three years have been mitigated somewhat by greater business persistency levels for business produced in prior years, and by a continuing decline in premiums ceded to lender-owned (captive) reinsurance companies. Since the advent of the current economic crisis, new mortgage guaranty production has not added significantly to the Company's net risk in force base. Ongoing weakness from the downturn in overall mortgage originations, lower industry-wide penetration of the nation's current mortgage market, and the effects of more selective underwriting guidelines employed since late 2007 have been contributing factors. Together with premium refunds related to claim rescissions and the below-noted termination of pool insurance contracts which effectively ended subsequent periods' premium inflows, these factors led to a continued decline in earned premiums in the latest annual period. During 2010 and 2009, Old Republic's mortgage guaranty subsidiaries had negotiated the terminations of various captive reinsurance and pool insurance contracts. From a financial accounting standpoint, premiums obtained upon terminations of captive reinsurance agreements are recognized as income when they are received rather than being deferred to future periods

when the related claim costs are expected to arise. On the other hand terminations of pool insurance contracts cause a reduction of incurred claims due to the positive effect of reserves transferred, but negative cash flows ensue. As a result of these captive transactions, net premiums earned in 2010 and 2009 were enhanced by \$13.6 and \$82.5, respectively. No similarly significant transactions occurred during 2011.

Title Group premium and fee revenues grew by 12.5% and 36.3% in 2011 and 2010, respectively, as a result of market share gains emanating from title industry dislocations and consolidations during the past three years.

The percentage allocation of net premiums earned for major insurance coverages in the General Insurance Group was as follows:

Years Ended December 31:	General Insurance Earned Premiums by Type of Coverage						Other
	Commercial Automobile (mostly trucking)	Workers' Compensation	Financial Indemnity	Inland Marine and Property	General Liability		
2009	36.6	% 21.7	% 13.5	% 9.5	% 8.0	% 10.7	%
2010	38.0	25.2	11.2	8.9	6.4	10.3	
2011	32.7	% 37.3	% 7.5	% 7.6	% 5.8	% 9.1	%

Earned premiums included in the above table within the Financial Indemnity Coverages category and related risk in force pertaining to the Company's consumer credit indemnity ("CCI") coverage have reflected a generally declining trend since 2008. The decline is largely due to a temporary discontinuation of active sales efforts due to the lack of market demand for the Company's current offerings. The following table shows CCI net premiums earned during the indicated periods and the maximum calculated risk in force at the end of the respective periods. Net earned premiums include additional premium adjustments arising from the variable claim experience of individual policies subject to retrospective rating plans. Risk in force reflects estimates of the maximum risk exposures at the inception of individual policies adjusted for cumulative claim costs and the lower outstanding loan balances attributed to such policies through the end of the periods shown below.

Years Ended December 31:	Net CCI Earned Premiums		
	Amount	% of General Insurance Group	Risk in Force
2009	\$121.4	6.8	% \$2,004.8
2010	87.9	4.9	1,518.6
2011	\$58.3	2.7	% \$1,263.1

The following tables provide information on production and related risk exposure trends for Old Republic's Mortgage Guaranty Group:

Mortgage Guaranty Production by Type

New Insurance Written:	Mortgage Guaranty Production by Type			
	Traditional Primary	Bulk	Other	Total
Years Ended December 31:				
2009	\$7,899.2	\$—	\$.5	\$7,899.8
2010	3,990.2	—	—	3,990.2
2011	\$2,099.8	\$—	\$—	\$2,099.8
New Risk Written by Type:	Traditional	Bulk	Other	Total

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	Primary					
Years Ended December 31:						
2009	\$1,681.7	\$—	\$—	\$1,681.7		
2010	930.0	—	—	930.0		
2011	\$511.0	\$—	\$—	\$511.0		
	Earned Premiums		Persistency			
Premium and Persistency Trends by Type:	Direct	Net	Traditional Primary	Bulk		
Years Ended December 31:						
2009	\$648.6	\$644.5	82.8	% 88.3	%	
2010	529.5	498.8	82.1	88.0		
2011	\$468.1	\$444.9	83.2	% 85.3	%	

45

As previously discussed, the Company's flagship mortgage guaranty insurance carrier ceased the underwriting of new policies effective August 31, 2011 and the existing book of business was placed in run-off operating mode.

While there is no consensus in the marketplace as to the precise definition of "sub-prime", Old Republic generally views loans with credit (FICO) scores less than 620, loans underwritten with reduced levels of documentation and loans with loan to value ratios in excess of 95% as having a higher risk of default. Risk in force concentrations by these attributes are disclosed in the following tables for both traditional primary and bulk production. Premium rates for loans exhibiting greater risk attributes are typically higher in anticipation of potentially greater defaults and claim costs. Additionally, bulk insurance policies, which represent 6.5% of total net risk in force as of year end 2011, are frequently subject to deductibles and aggregate stop losses which serve to limit the overall risk on a pool of insured loans. As the decline in the housing markets has accelerated and mortgage lending standards have tightened, rising defaults and the attendant increases in reserves and paid claims on higher risk loans have become more significant drivers of increased claim costs.

Net Risk in Force

Net Risk in Force By Type:	Traditional Primary	Bulk	Other	Total
As of December 31:				
2009	\$18,727.9	\$1,776.7	\$297.2	\$20,801.9
2010	16,557.4	1,187.0	256.1	18,000.6
2011	\$14,476.9	\$1,017.7	\$176.3	\$15,671.0

Analysis of Risk in Force

Risk in Force Distribution By FICO Scores:	FICO less than 620	FICO 620 to 680	FICO Greater than 680	Unscored/ Unavailable
Traditional Primary:				
As of December 31:				
2009	6.5	% 28.8	% 63.1	% 1.6
2010	6.4	27.5	64.7	1.4
2011	6.2	% 26.8	% 65.7	% 1.3

Bulk(a):

As of December 31:				
2009	17.6	% 33.1	% 49.2	% .1
2010	23.2	32.1	44.6	.1
2011	24.0	% 32.2	% 43.7	% .1

Risk in Force Distribution By Loan to Value ("LTV") Ratio:

LTV 85.0 and below	LTV 85.01 to 90.0	LTV 90.01 to 95.0	LTV Greater than 95.0
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Traditional Primary(b):

As of December 31:				
2009	5.4	% 36.9	% 31.2	% 26.5
2010	5.3	37.0	31.9	25.8
2011	5.1	% 36.2	% 32.9	% 25.8

Bulk(a):

As of December 31:

2009	65.9	% 18.4	% 7.8	% 7.9	%
2010	57.7	22.8	9.6	9.9	
2011	57.1	% 22.9	% 9.8	% 10.2	%

(a) Bulk pool risk in-force, which represented 31.0% of total bulk risk in-force at December 31, 2011, has been allocated pro-rata based on insurance in-force.

(b) The LTV distribution reflects base LTV ratios which are determined prior to the impact of single premiums financed and paid at the time of loan origination. Prior to the second quarter of 2011, LTV distributions were presented on the basis of total LTV which included the financed single premium portion of the loan amount. Prior period data has been reclassified to conform to the current presentation.

Risk in Force Distribution By Top Ten States:

Traditional Primary												
	TX	FL	GA	IL	CA	NC	PA	OH	NJ	VA		
As of December 31:												
2009	8.5	% 8.1	% 5.2	% 5.1	% 5.5	% 4.5	% 4.0	% 3.2	% 3.1	% 2.9	%	
2010	8.7	7.5	5.2	5.0	5.1	4.7	4.2	3.3	3.1	2.9		
2011	8.8	% 7.5	% 5.2	% 5.0	% 5.0	% 4.8	% 4.3	% 3.3	% 3.3	% 3.0	%	
Bulk (a)												
	TX	FL	GA	IL	CA	AZ	PA	OH	NJ	NY		
As of December 31:												
2009	4.6	% 10.4	% 4.0	% 4.0	% 17.8	% 4.1	% 2.6	% 3.2	% 3.5	% 5.4	%	
2010	5.3	9.9	4.3	4.0	15.8	3.5	3.1	3.9	3.3	6.0		
2011	5.4	% 9.9	% 4.3	% 4.0	% 14.9	% 3.2	% 3.1	% 3.9	% 3.5	% 6.5	%	

Risk in Force Distribution By Level of Documentation:

Traditional Primary:			Full Documentation	Reduced Documentation	
As of December 31:					
2009			91.1	% 8.9	%
2010			92.4	7.6	
2011			92.8	% 7.2	%

Bulk (a):

As of December 31:					
2009			49.4	% 50.6	%
2010			57.7	42.3	
2011			58.4	% 41.6	%

Risk in Force Distribution By Loan Type:

Traditional Primary:			Fixed Rate & ARMs with Resets >=5 Years	ARMs with Resets <5 years	
As of December 31:					
2009			96.3	% 3.7	%
2010			96.8	3.2	
2011			97.0	% 3.0	%

Bulk (a):

As of December 31:					
2009			75.4	% 24.6	%
2010			69.6	30.4	
2011			71.0	% 29.0	%

(a) Bulk pool risk in-force, which represented 31.0% of total bulk risk in-force at December 31, 2011, has been allocated pro-rata based on insurance in-force.

The following table shows the percentage distribution of Title Group premium and fee revenues by production sources:

Title Premium and Fee Production by Source

	Direct Operations	Independent Title Agents & Other	
Years Ended December 31:			
2009	38.5	% 61.5	%
2010	35.6	64.4	
2011	32.6	% 67.4	%

Revenues: Net Investment Income

Net investment income is affected by trends in interest and dividend yields for the types of securities in which the Company's funds are invested during each reporting period. The following tables reflect the segmented and consolidated invested asset bases as of the indicated dates, and the investment income earned and resulting yields on such assets. Since the Company can exercise little control over fair values, yields are evaluated on the basis of investment income earned in relation to the cost of the underlying invested assets, though yields based on the fair values of such assets are also shown in the statistics below.

Invested Assets at Adjusted Cost						Fair Value Adjust- ment	Invested Assets at Fair Value
General	Mortgage	Title	Corporate and Other	Total			
As of December 31:							
2010	\$6,451.2	\$2,039.2	\$636.0	\$394.1	\$9,520.5	\$738.7	\$10,259.3
2011	\$6,610.7	\$1,654.0	\$683.7	\$796.6	\$9,745.2	\$750.3	\$10,495.5
Net Investment Income						Yield at Original Cost	Fair Value
General	Mortgage	Title	Corporate and Other	Total			
Years Ended December 31:							
2009	\$258.9	\$92.0	\$25.2	\$7.2	\$383.5	4.15	% 4.17 %
2010	260.1	84.9	26.5	7.3	379.0	3.94	3.80
2011	\$270.5	\$59.2	\$27.3	\$7.4	\$364.6	3.71	% 3.51 %

Consolidated net investment income declined by 3.8% and 1.2% in 2011 and 2010, respectively, and grew by 1.6% in 2009. This revenue source is affected by changes in the invested asset base which are mainly driven by consolidated operating cash flows, by a concentration of investable assets in interest-bearing securities, and by changes in market rates of return. Yield trends reflect the relatively short maturity of Old Republic's fixed maturity securities portfolio as well as continuation of a relatively lower yield environment during the past several years. Net investment income includes contributions from PMA of \$19.1 and \$2.9 in 2011 and the fourth quarter of 2010, respectively.

Revenues: Net Realized Gains (Losses)

The Company's investment policies are not designed to maximize or emphasize the realization of investment gains. Rather, these policies aim for a stable source of income from interest and dividends, protection of capital, and the providing of sufficient liquidity to meet insurance underwriting and other obligations as they become payable in the

future. Dispositions of fixed maturity securities generally arise from scheduled maturities and early calls; in 2011, 2010 and 2009, 34.4%, 45.5% and 87.2%, respectively, of all such dispositions resulted from these occurrences. 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. Additionally, the amount of net realized gains and losses registered in any one accounting period are affected by the aforementioned assessments of securities' values for other-than-temporary impairment. As a result of the interaction of all these factors and considerations, net realized investment gains or losses can vary significantly from period-to-period, and, in the Company's view, are not indicative of any particular trend or result in the basics of its insurance business.

The following table reflects the composition of net realized gains or losses for the periods shown. The 2010 realized gains on fixed maturity securities reflect the sale of certain tax-exempt municipal bonds. The gains on equity securities generally reflect the recovery of value realized upon the subsequent sale of common stocks originally impaired in 2008. All sales proceeds were redirected to taxable bonds with higher investment yields and a diversified portfolio of equity securities, with concentrations within the utility and energy industries.

Years Ended December 31:	Realized Gains (Losses) on Disposition of Securities			Impairment Losses on Securities			Net realized gains (losses)
	Fixed maturity securities	Equity securities and miscel- laneous investments	Total	Fixed maturity securities	Equity securities and miscel- laneous investments	Total	
2009	\$4.2	\$11.7	\$15.9	\$(1.5)	\$(8.0)	\$(9.5)	\$6.3
2010	79.1	31.2	110.3	—	(1.2)	(1.2)	109.1
2011	\$142.6	\$23.1	\$165.8	\$—	\$(50.2)	\$(50.2)	\$115.5

Expenses: Benefits and Claims

The Company records the benefits, claims and related settlement costs that have been incurred during each accounting period. Total claim costs are affected by the amount of paid claims and the adequacy of reserve estimates established for current and prior years' claim occurrences at each balance sheet date.

The following table shows a breakdown of gross and net of reinsurance claim reserve estimates for major types of insurance coverages as of December 31, 2011 and 2010:

	Claim and Loss Adjustment Expense Reserves December 31,			
	2011		2010	
	Gross	Net	Gross	Net
Workers' compensation	\$3,472.8	\$1,830.8	\$3,508.5	\$1,823.0
General liability	1,392.6	645.3	1,317.3	650.4
Commercial automobile (mostly trucking)	1,116.0	925.8	1,111.8	917.5
Other coverages	579.4	367.1	624.6	387.9
Unallocated loss adjustment expense reserves	172.8	137.0	191.0	149.1
Total general insurance reserves	6,733.7	3,906.1	6,753.5	3,928.1
Mortgage guaranty	1,690.5	1,613.9	1,729.7	1,614.0
Title	314.9	314.9	281.2	281.2
Life and health	21.3	17.4	24.2	20.0
Unallocated loss adjustment expense reserves - other coverages	26.0	26.0	25.8	25.8
Total claim and loss adjustment expense reserves	\$8,786.6	\$5,878.5	\$8,814.6	\$5,869.3
Asbestosis and environmental claim reserves included in the above general insurance reserves:				
Amount	\$182.0	\$137.9	\$195.7	\$144.9
% of total general insurance reserves	2.7	% 3.5	% 2.9	% 3.7

The Company's reserve for loss and loss adjustment expenses represents the accumulation of estimates of ultimate losses, including incurred but not reported losses and loss adjustment expenses. 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 as further discussed below. Consequently, 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 and the resulting changes in estimates are recorded in operations of the periods during which they are made. Increases to prior reserve estimates are often referred to as unfavorable development whereas any changes that decrease previous estimates of the Company's ultimate liability are referred to as favorable development.

Overview of Loss Reserving Process

Most of Old Republic's consolidated claim and related expense reserves stem from its general insurance business. At December 31, 2011, such reserves accounted for 76.6% and 66.4% of consolidated gross and net of reinsurance reserves, respectively, while similar reserves at December 31, 2010 represented 76.6% and 66.9% of the respective consolidated amounts.

The Company's reserve setting process reflects the nature of its insurance business and the decentralized basis upon which it is conducted. Old Republic's general insurance operations encompass a large variety of lines or classes of commercial insurance; it has negligible exposure to personal lines such as homeowners or private passenger

automobile insurance that exhibit wide diversification of risks, significant frequency of claim occurrences, and high degrees of statistical credibility. Additionally, the Company's insurance subsidiaries do not provide significant amounts of insurance protection for premises; most of its property insurance exposures relate to cargo, incidental property, and insureds' inland marine assets. Consequently, the wide variety of policies issued and commercial insurance customers served require that loss reserves be analyzed and established in the context of the unique or different attributes of each block or class of business produced by the Company. For example, accident liability claims emanating from insured trucking companies or from general aviation customers become known relatively quickly, whereas claims of a general liability nature arising from the building activities of a construction company may emerge over extended periods of time. Similarly, claims filed pursuant to errors and omissions or directors and officers' ("E&O/D&O") liability coverages are usually not prone to immediate evaluation or quantification inasmuch as many such claims may be litigated over several years and their ultimate costs may be affected by the vagaries of judged or jury verdicts. Approximately 91% of the general insurance group's claim reserves stem from liability insurance coverages for commercial customers which typically require more extended periods of investigation and at times protracted litigation before they are finally settled. As a consequence of these and other factors, Old Republic does not utilize a single, overarching loss reserving approach.

The Company prepares periodic analyses of its loss reserve estimates for its significant insurance coverages. It establishes point estimates for most losses on an insurance coverage line-by-line basis for individual subsidiaries, sub-classes, individual accounts, blocks of business or other unique concentrations of insurance risks such as directors and officers' liability, that have similar attributes. Actuarially or otherwise derived ranges of reserve levels are not utilized as such in setting these reserves. Instead the reported reserves encompass the Company's best point estimates at each reporting date and the overall reserve level at any point in time therefore represents the compilation of a very large number of reported reserve estimates and the results of a variety of formula calculations largely driven by statistical analysis of historical data. Reserve releases or additions are implicitly covered by the point estimates incorporated in total reserves at each balance sheet date. The Company does not project future variability or make an explicit provision for uncertainty when determining its best estimate of loss reserves. Over the most recent decade actual incurred losses have developed within a reasonable range of their original estimates.

Aggregate loss reserves consist of liability estimates for claims that have been reported ("case") to the Company's insurance subsidiaries and reserves for claims that have been incurred but not yet reported or whose ultimate costs may not become fully apparent until a future time. Additionally, the Company establishes unallocated loss adjustment expense reserves for loss settlement costs that are not directly related to individual claims. Such reserves are based on prior years' cost experience and trends, and are intended to cover the unallocated costs of claim departments' administration of case and IBNR claims over time. Long-term, disability-type workers' compensation reserves are discounted to present value based on interest rates that range from 3.5% to 4.0%. The amount of discount reflected in the year end net reserves totaled \$235.1, \$231.0 and \$143.9 as of December 31, 2011, 2010, and 2009, respectively.

A large variety of statistical analyses and formula calculations are utilized to provide for IBNR claim costs as well as additional costs that can arise from such factors as monetary and social inflation, changes in claims administration processes, changes in reinsurance ceded and recoverability levels, and expected trends in claim costs and related ratios. Typically, such formulas take into account so-called link ratios that represent prior years' patterns of incurred or paid loss trends between succeeding years, or past experience relative to progressions of the number of claims reported over time and ultimate average costs per claim.

Overall, reserves pertaining to several hundred large individual commercial insurance accounts that exhibit sufficient statistical credibility, and at times may be subject to retrospective premium rating plans or the utilization of varying levels or types of self-insured retentions through captive insurers and similar risk management mechanisms are established on an account by account basis using case reserves and applicable formula-driven methods. Large account reserves are usually set and analyzed for groups of coverages such as workers' compensation, commercial auto and

general liability that are typically underwritten jointly for many customers. For certain so-called long-tail categories of insurance such as retained or assumed excess liability or excess workers' compensation, officers and directors' liability, and commercial umbrella liability relative to which claim development patterns are particularly long, more volatile, and immature in their early stages of development, the Company judgmentally establishes the most current accident years' loss reserves on the basis of expected loss ratios. Such expected loss ratios typically reflect currently estimated loss ratios from prior accident years, adjusted for the effect of actual and anticipated rate changes, actual and anticipated changes in coverage, reinsurance, mix of business, and other anticipated changes in external factors such as trends in loss costs or the legal and claims environment. Expected loss ratios are generally used for the two to three most recent accident years depending on the individual class or category of business. As actual claims data emerges in succeeding interim and annual periods, the original accident year loss ratio assumptions are validated or otherwise adjusted sequentially through the application of statistical projection techniques such as the Bornhuetter/Ferguson method which utilizes data from the more mature experience of prior years to arrive at a likely indication of more recent years' loss trends and costs.

Mortgage guaranty insurance reserves for unpaid claims and claim adjustment expenses are recognized only upon an instance of default, defined as an insured mortgage loan for which two or more consecutive monthly payments have been missed. Loss reserves are based on statistical calculations that take into account the number of reported insured mortgage loan defaults as of each balance sheet date, as well as experience-based estimates of loan defaults that have occurred but have not as yet been reported. Further, the loss reserve estimating process takes into account a large number of variables including trends in claim severity, potential salvage recoveries, expected cure rates for reported loan delinquencies at various stages of default, the level of coverage rescissions and claims denials due to material misrepresentation in key underwriting information or non-compliance with prescribed underwriting guidelines, and management judgments relative to future employment levels, housing market activity, and mortgage loan interest costs, demand, and extensions.

The Company has the legal right to rescind mortgage insurance coverage unilaterally as expressly stated in its policy. Moreover, two federal courts that have recently considered that policy wording have each affirmed that right (See *First Tennessee Bank N.A. v. Republic Mortg. Ins. Co.*, Case No. 2:10-cv-02513-JPM-cgc (W.D. Tenn., Feb. 25, 2011) and *JPMorgan Chase Bank N.A. v. Republic Mortg. Ins. Co.*, Civil Action No. 10-06141 (SRC) (D. NJ, May 4, 2011), each decision citing supporting state law legal precedent). RMIC's mortgage insurance policy provides that the insured represents that all statements made and information provided to it in an application for coverage for a loan, without regard to who made the statements or provided the information, have been made and presented for and on behalf of the insured; and that such statements and information are neither false nor misleading in any material respect, nor omit any fact necessary to make such statements and information not false or misleading in any material respect. According to the policy, if any of those representations are materially false or misleading with respect to a loan, the Company has the right to cancel or rescind coverage for that loan retroactively to commencement of the coverage.

Where the Company determines that an application contains a material misrepresentation, it either advises the insured in writing of its findings prior to rescinding coverage or exercises its unilateral right to rescind coverage for that loan, stating the reasons for that action in writing and returning the applicable premium.

The rescission of coverage in instances of materially faulty representations or warranties provided in applications for insurance is a necessary and prevailing practice throughout the insurance industry. In the case of mortgage guaranty insurance, rescissions have occurred regularly over the years but have been generally immaterial. Since 2008, however, the Company has experienced a much greater incidence of rescissions due to increased levels of observed fraud and misrepresentations in insurance applications pertaining to business underwritten between 2004 and the first half of 2008. As a result, the Company has of necessity incorporated estimates of expected levels of coverage rescissions and claim denials in its reserving methodology since 2008. Such estimates are evaluated at each balance sheet date and take into account observed trends in rescission and denial rates.

The table below shows the estimated effects of coverage rescissions and claim denials on loss reserves and paid and incurred losses.

	2011	2010	2009
Estimated reduction in beginning reserve	\$710.3	\$1,712.2	\$830.4
Total incurred claims and settlement expenses reduced (increased) by changes in estimated rescissions:			
Current year	223.1	394.1	1,087.9
Prior year	(340.8)	) (215.7)	) 513.3
Sub-total	(117.6)	) 178.3	1,601.3
Estimated rescission reduction in paid claims	(279.5)	) (1,180.3)	) (719.5)
Estimated reduction in ending reserve	\$313.2	\$710.3	\$1,712.2

The estimated reduction in ending loss reserves reflects, in large measure, a variety of judgments relative to the level of expected coverage rescissions and claim denials on loans that are in default as of each balance sheet date. The provision for insured events of the current year resulted from actual and anticipated rescissions and claim denials attributable to newly reported delinquencies in each respective year. The provision for insured events of prior years resulted from actual rescission and claim denial activity or revisions in assumptions regarding expected rescission or claim denial rates on outstanding prior year delinquencies. 2009 reflects a significant increase in the levels of anticipated rescissions and claim denials on reported delinquencies. The trends for 2010 and 2011 reflect a continuing reduction in the level of actual and anticipated rescission and claim denial rates on total outstanding delinquencies. Variances between the estimated rescission and actual claim denial rate are reflected in the periods during which they occur.

Claims not paid by virtue of rescission or denial represent the Company's estimated contractual risk, before consideration of the impacts of any reinsurance and deductibles or aggregate loss limits, on cases that are settled by the issuance of a rescission or denial notification. 2010 rescissions include \$431.4 related to certain pool insurance contracts which were terminated during the year.

Although the insured has no right under the policy to appeal, if the insured, at any time, contests in writing the Company's findings or action with respect to a loan or a claim, the Company considers any additional information supplied by the insured. This consideration may lead to further investigation, retraction or confirmation of the initial determination. If the Company concludes that it will reinstate coverage, it advises the insured in writing that it will do so immediately upon receipt of the premium previously returned. Reserves are not adjusted for potential reversals of rescissions or adverse rulings for loans under dispute since such reversals of claim rescissions and denials have historically been immaterial to the reserve estimation process.

There is currently a single instance in which the Company seeks to recover from an insured for previously paid claims. In its counterclaim in the pending arbitration with Countrywide (Countrywide Fin'l Corp. v. Republic Mortg. Ins. Co., Case No. 72 195 Y 0011510 (AAA)). The Countrywide parties are Countrywide Financial Corporation, Countrywide Home Loans, Inc., Bank of America, N.A., in its own capacity and as successor by merger of BAC Home Loan Servicing L.P.), RMIC is seeking to rescind a June 2006 amendment to a mortgage insurance policy that it contends was fraudulently induced by Countrywide. The amendment made coverage for a loan immediately incontestable for borrower misrepresentation. The Company seeks a declaration that the amendment is null and void and to recover the claim amounts totaling at least \$26.6 that it paid notwithstanding the existence of borrower misrepresentations that otherwise

would have supported a rescission of coverage for those loans. The Company does not anticipate recoveries from previously paid claims in its reserving process until such time as a recovery is deemed probable and the amount can be reasonably estimated.

Title insurance and related escrow services loss and loss adjustment expense reserves are established as point estimates to cover the projected settlement costs of known as well as IBNR losses related to premium and escrow service revenues of each reporting period. Reserves for known claims are based on an assessment of the facts available to the Company during the settlement process. The point estimates covering all claim reserves take into account IBNR claims based on past experience and evaluations of such variables as changing trends in the types of policies issued, changes in real estate markets and interest rate environments, and changing levels of loan refinancing, all of which can have a bearing on the emergence, number, and ultimate costs of claims.

Incurred Loss Experience

Management believes that the Company's overall reserving practices have been consistently applied over many years. For at least the past ten years, previously established aggregate reserves have produced reasonable estimates of the cumulative ultimate net costs of claims incurred. However, there are no guarantees that such outcomes will continue, and, accordingly, no representation is made that ultimate net claim and related costs will not develop in future years to be greater or lower than currently established reserve estimates. In management's opinion, however, such potential development is not likely to have a material effect on the Company's consolidated financial position, although it could affect materially its consolidated results of operations for any one annual or interim reporting period. See further discussion in this Annual Report on Form 10-K under Item 1A - Risk Factors.

The following table shows an analysis of changes in aggregate reserves for the Company's losses, claims, and settlement expenses for each of the years shown:

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Years Ended December 31:	2011	2010	2009
Gross reserves at beginning of year	\$8,814.6	\$7,915.0	\$7,241.3
Less: reinsurance losses recoverable	2,945.3	2,316.5	2,227.0
Net reserves at beginning of year:			
General Insurance (d)	3,928.1	3,977.4	3,326.9
Mortgage Guaranty (a)	1,623.0	1,965.4	1,382.6
Title Insurance	298.0	277.1	282.4
Other	20.0	21.5	22.2
Sub-total	5,869.3	6,241.5	5,014.2
Incurred claims and claim adjustment expenses:			
Provisions for insured events of the current year:			
General Insurance	1,678.5	1,426.3	1,409.2
Mortgage Guaranty (a)	783.9	781.4	1,284.0
Title Insurance	105.7	83.4	63.6
Other	40.2	44.4	36.4
Sub-total	2,608.5	2,335.6	2,793.3
Change in provision for insured events of prior years:			
General Insurance	(149.2)	(76.6)	(56.8)
Mortgage Guaranty (a)	273.2	(15.2)	(149.9)
Title Insurance	—	13.4	6.7
Other	(1.2)	(3.2)	(1.3)
Sub-total	122.6	(81.5)	(201.3)
Total incurred claims and claim adjustment expenses (a)	2,731.1	2,254.1	2,592.0
Payments:			
Claims and claim adjustment expenses attributable to insured events of the current year:			
General Insurance	610.6	593.2	498.6
Mortgage Guaranty (b)	59.8	52.3	7.8
Title Insurance	7.9	7.2	7.1
Other	30.7	33.0	25.8
Sub-total	709.2	685.9	539.3
Claims and claim adjustment expenses attributable to insured events of prior years:			
General Insurance	940.5	805.8	846.4
Mortgage Guaranty (b)	997.6	1,056.1	543.5
Title Insurance	63.6	68.7	68.5
Other	10.7	9.6	9.9
Sub-total	2,012.6	1,940.4	1,468.3
Total payments (b)	2,721.9	2,626.4	2,007.7
Amount of reserves for unpaid claims and claim adjustment expenses at the end of each year, net of reinsurance losses recoverable: (c)			
General Insurance	3,906.1	3,928.1	3,334.3
Mortgage Guaranty	1,622.8	1,623.0	1,965.4
Title Insurance	332.0	298.0	277.1
Other	17.4	20.0	21.5
Sub-total	5,878.5	5,869.3	5,598.5
Reinsurance losses recoverable	2,908.1	2,945.3	2,316.5
Gross reserves at end of year	\$8,786.6	\$8,814.6	\$7,915.0

In common with all other insurance lines, mortgage guaranty paid and incurred claim and claim adjustment expenses include only those costs actually or expected to be paid by the Company. Changes in mortgage guaranty (a) aggregate case, IBNR, and loss adjustment expense reserves shown in the following table and entering into the determination of incurred claim costs, take into account, among a large number of variables, claim cost reductions for anticipated coverage rescissions and claims denials previously noted.

The mortgage guaranty provision for insured events of the current year was reduced by an estimated \$223.1, \$394.1 and \$1,087.9, respectively, for 2011, 2010 and 2009. The provision for insured events of prior years in 2011, 2010 and 2009 was increased (decreased) by an estimated \$340.8, \$215.7 and \$(513.3), respectively. These changes were offset to varying degrees by differences between actual claim settlements relative to expected experience and by subsequent revisions to assumptions in regards to claim frequency, severity or levels of

associated claim settlement costs which result from consideration of underlying trends and expectations.

	2011	2010	2009
Net reserve increase(decrease):			
General Insurance(*)	\$(22.0)	\$593.8	\$7.4
Mortgage Guaranty	(.2)	(342.3)	582.8
Title Insurance	34.0	20.8	(5.3)
Other	(2.6)	(1.4)	(.7)
Total	\$9.2	\$270.8	\$584.3

(*) Includes reserves of \$638.8 at December 31, 2010 assumed in conjunction with the PMA merger.

Rescissions reduced the Company's paid losses by an estimated \$279.5, \$1,180.3, and \$719.5 for 2011, 2010, and (b) 2009, respectively. 2010 includes \$431.4 related to certain pool insurance contracts which were terminated during the year.

(c) Year end net IBNR reserves carried in each segment were as follows:

	2011	2010	2009
General Insurance(**)	\$1,909.5	\$1,905.1	\$1,621.6
Mortgage Guaranty	63.6	46.2	39.7
Title Insurance	262.5	216.5	191.3
Other	4.6	5.0	9.4
Total	\$2,240.4	\$2,172.9	\$1,862.0

(**) Includes reserves of \$347.7 at December 31, 2010 assumed in conjunction with the PMA merger.

(d) Includes reserves acquired through the PMA merger at October 1, 2010.

During 2010's second half, various news accounts cited possible widespread issues pertaining to the loan foreclosure procedures of lending institutions. Basically, these news reports point to faulty documentation of such foreclosure procedures. In the Company's opinion, the possible impact on its operating segments from foreclosure delays is summarized as follows: General Insurance -- the CCI coverage is largely unaffected because foreclosure is not a condition precedent to the filing of a claim by an insured lending institution. Mortgage guaranty -- a delay in the foreclosure proceedings will have the effect of delaying the filing and ultimate payment of claims. It is not anticipated that this will increase the number of delinquent loans that ultimately go to claim but will result in distressed loans remaining in the later stage of delinquency until the ultimate foreclosure is resolved. Title insurance -- The current foreclosure issues could impact this line of business by legal costs associated with defending title issues created by flaws in the foreclosure proceedings. In an extreme case, a title company could be forced to reimburse the buyer of the home as a result of a faulty foreclosure proceeding. In this event, the Company would look to the protections afforded it in the policy and seek remedies from the foreclosing lender. It is unlikely that these issues would have a material financial impact on our title insurance company.

The percentage of net claims, benefits and related settlement expenses incurred as a percentage of premiums and related fee revenues of the Company's three major operating segments and for consolidated operations were as follows:

Years Ended December 31:	2011	2010	2009	
General	71.3	% 76.4	% 76.3	%
Mortgage	237.6	153.6	176.0	

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Title	7.8	8.0	7.9	
Consolidated benefits and claim ratio	67.8	% 63.4	% 76.7	%
Reconciliation of consolidated ratio:				
Provision for insured events of the current year	64.8	% 65.7	% 82.6	%
Change in provision for insured events of prior years:				
Due to asbestos and environmental	—	—	—	
Due to all other coverages	3.0	(2.3)	(5.9))
Net (favorable) unfavorable development	3.0	(2.3)	(5.9))
Consolidated benefits and claim ratio	67.8	% 63.4	% 76.7	%

The consolidated benefits and claim ratio reflects the changing effects of period-to-period contributions of each segment to consolidated results, and this ratio's variances within each segment. For the three most recent calendar years, the above table indicates that the one-year development of consolidated reserves at the beginning of each year

produced unfavorable developments in 2011 and favorable developments in 2010 and 2009 which on average reduced the consolidated loss ratio by 1.7%.

The percentage of net claims, benefits and related settlement expenses measured against premiums earned by major types of general insurance coverage were as follows:

Years Ended December 31:	General Insurance Claim Ratios by Type of Coverage							Other
	All Coverages	Commercial Automobile (mostly trucking)	Workers' Compen- sation	Financial Indemnity	Inland Marine and Property	General Liability		
2009	76.3	% 71.5	% 74.9	% 117.8	% 63.0	% 65.6	% 60.1	%
2010	76.4	73.0	70.7	126.9	62.8	64.6	67.1	
2011	71.3	% 71.9	% 72.3	% 77.3	% 70.4	% 64.6	% 62.8	%

Excluding the impact of Old Republic's CCI business, the overall general insurance claims ratio shows reasonably consistent trends for the past three years. 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. 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. Even though consumer loan delinquency rates have subsided fairly steadily over the past year, CCI claims costs in 2011 continue to reflect the retention of higher reserve levels until there is greater certainty around these indicated trends.

The following table shows CCI claims related trends for the periods shown:

Years Ended December 31:	CCI Claim Costs Paid		Incurred		Effect on General Insurance Claim Ratio (b)	Reported Delinquency Ratio at End of Period	Claim Rescissions and Denials
	Amount	Ratio (a)	Amount	Ratio (a)			
2009	\$256.9	211.6	% \$214.7	176.9	% 7.3	% 6.8	% \$974.0
2010	265.4	301.8	212.5	241.7	8.6	4.6	621.5
2011	\$93.6	160.7	% \$84.8	145.5	% 2.1	% 4.4	% \$166.1

(a) Percent of net CCI earned premiums.

(b) Represents the percentage point increase in the general insurance claim ratio.

During the three most recent calendar years, the general insurance group experienced favorable development of prior year loss reserves primarily due to the commercial automobile, general aviation, and the E&O/D&O (financial indemnity) lines of business; these were partially offset by unfavorable development in workers' compensation coverages, by ongoing development of asbestos and environmental ("A&E") claim reserves, and by unfavorable development of the CCI reserves.

CCI claims ratios in the above table include only those costs actually or expected to be paid by the Company and exclude claims not paid by virtue of coverage rescissions and claims denials as well as unsubstantiated claim submissions. Certain claim rescissions and denials may from time to time become the subject of disagreements

between the Company and certain individual insureds. Possible future reversals of such rescissions and denials, however, may not necessarily affect the adequacy of previously established claim reserve levels nor fully impact operating results. These effects could be fully or partially negated by the imposition of additional retrospective premiums and/or the limiting effects of maximum policy limits.

Unfavorable developments attributable to A&E claim reserves are due to periodic re-evaluations of such reserves as well as subsequent reclassifications of other coverages' reserves, typically workers' compensation, deemed assignable to A&E category of losses. Except for a small portion that emanates from ongoing primary insurance operations, a large majority of the A&E claim reserves posted by Old Republic stem mainly from its participations in assumed reinsurance treaties and insurance pools which were discontinued fifteen or more years ago and have since been in run-off status. With respect to the primary portion of gross A&E reserves, Old Republic administers the related claims through its claims personnel as well as outside attorneys, and posted reserves reflect its best estimates of ultimate claim costs. Claims administration for the assumed portion of the Company's A&E exposures is handled by the claims departments of unrelated primary or ceding reinsurance companies. While the Company performs periodic reviews of certain claim files managed by third parties, the overall A&E reserves it establishes respond to the paid claim and case reserve activity reported to the Company as well as available industry statistical data such as so-called survival ratios.

Such ratios represent the number of years' average paid losses for the three or five most recent calendar years that are encompassed by an insurer's A&E reserve level at any point in time. According to this simplistic appraisal of an insurer's A&E loss reserve level, Old Republic's average five year survival ratios stood at 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 presented. Fluctuations in this ratio between years can be caused by the inconsistent pay out patterns associated with these types of claims. Incurred net losses for A&E claims have averaged .2% of general insurance group net incurred losses for the five years ended December 31, 2011.

A summary of reserve activity, including estimates for IBNR, relating to A&E claims at December 31, 2011 and 2010 is as follows:

	December 31,			
	2011		2010	
	Gross	Net	Gross	Net
Asbestos:				
Reserves at beginning of year	\$134.8	\$108.0	\$122.0	\$103.5
Reserves acquired pursuant to PMA merger	—	—	25.0	11.2
Loss and loss expenses incurred	12.7	9.7	(1.3)	(1.0)
Claims and claim adjustment expenses paid	18.5	11.3	(11.0)	(5.7)
Reserves at end of year	129.0	106.4	134.8	108.0
Environmental:				
Reserves at beginning of year	60.8	36.9	50.7	33.4
Reserves acquired pursuant to PMA merger	—	—	14.2	8.6
Loss and loss expenses incurred	(.5)	.6	—	(1.5)
Claims and claim adjustment expenses paid	7.2	6.1	(4.0)	(3.5)
Reserves at end of year	53.0	31.4	60.8	36.9
Total asbestos and environmental reserves	\$182.0	\$137.9	\$195.7	\$144.9

The mortgage guaranty claim ratios for the years presented were affected mostly by varying claim payment trends and reserve provisions as well as captive and pool transactions. As indicated in the above Executive Summary, Old Republic's mortgage guaranty subsidiaries negotiated the termination of various captive reinsurance and pool insurance contracts during 2010 and 2009. Taken together all of these transactions reduced the incurred claim ratio by 15.0 and 25.8 percentage points for the years ended December 31, 2010 and 2009, respectively. These claim ratios had risen through year-end 2009 principally as a result of higher reserve provisions and paid losses. Reserve provisions have been impacted by the levels of reported delinquencies emanating from the downturn in the national economy, widespread stress in housing and mortgage finance markets, and increasing 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 claims 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 costs are influenced by the amount of unpaid principal outstanding on delinquent loans as well as the rising expenses of settling claims due to higher investigations costs, legal fees, and accumulated interest expenses.

Certain mortgage guaranty average claims related trends are listed below:

Average Paid Claim Amount (a)	Reported Delinquency Ratio at End of Period	Claims Rescissions
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Years Ended December 31:	Traditional Primary	Bulk	Traditional Primary	Bulk	and Denials
2009	\$48,492	\$59,386	16.83	% 30.81	% \$719.5
2010	47,954	58,184	15.55	24.54	748.8
2011	\$48,254	\$54,956	14.89	% 21.90	% \$279.5

(a) Amounts are in whole dollars.

56

Traditional Primary Delinquency Ratios for Top Ten States (b):																				
	TX	FL	GA	IL	CA	NC	PA	OH	NJ	VA										
As of December 31:																				
2009	10.6	%	34.1	%	18.8	%	19.5	%	30.5	%	12.3	%	11.6	%	16.4	%	21.1	%	13.9	%
2010	9.6		32.6		17.3		19.2		22.6		11.9		11.5		16.0		20.7		11.7	
2011	8.4	%	32.2	%	15.4	%	20.6	%	17.1	%	12.2	%	12.1	%	15.4	%	23.5	%	11.5	%
Bulk Delinquency Ratios for Top Ten States (b):																				
	TX	FL	GA	IL	CA	AZ	PA	OH	NJ	NY										
As of December 31:																				
2009	16.3	%	46.5	%	27.6	%	35.7	%	41.3	%	37.5	%	21.7	%	23.4	%	33.3	%	26.8	%
2010	15.2		37.0		22.3		28.6		27.7		24.6		20.6		23.2		27.9		23.2	
2011	14.1	%	34.0	%	19.5	%	26.3	%	21.8	%	19.7	%	20.1	%	19.1	%	28.2	%	23.0	%
Total Delinquency Ratios for Top Ten States (includes "other" business) (b):																				
	TX	FL	GA	IL	CA	NC	PA	OH	NJ	VA										
As of December 31:																				
2009	11.2	%	36.4	%	19.4	%	20.5	%	33.9	%	11.5	%	12.9	%	17.2	%	24.1	%	14.0	%
2010	9.9		32.1		17.1		19.1		23.2		10.9		12.1		16.6		21.5		10.6	
2011	8.8	%	31.6	%	15.4	%	20.5	%	18.1	%	11.7	%	12.7	%	15.7	%	24.0	%	10.8	%

(b) As determined by risk in force as of December 31, 2011, these 10 states represent approximately 50.1%, 58.8%, and 50.3%, of traditional primary, bulk, and total risk in force, 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 remained at elevated levels in the most recent three years by comparison to historical trends due to the continuing downturn and economic stresses in the housing and related mortgage lending industries.

Volatility of Reserve Estimates and Sensitivity

There is a great deal of uncertainty in the estimates of loss and loss adjustment expense reserves, and unanticipated events can have both a favorable or unfavorable impact on such estimates. The Company believes that the factors most responsible, in varying and continually changing degrees, for such favorable or unfavorable development are as follows:

General insurance net claim reserves can be affected by lower than expected frequencies of claims incurred but not reported, the effect of reserve discounts applicable to workers' compensation claims, higher than expected severity of litigated claims in particular, governmental or judicially imposed retroactive conditions in the settlement of claims such as noted elsewhere in this document in regard to black lung disease claims, greater than anticipated inflation rates applicable to repairs and the medical benefits portion of claims, and higher than expected IBNR due to the slower and highly volatile emergence patterns applicable to certain types of claims such as those stemming from litigated, assumed reinsurance, or the A&E types of claims noted above.

Mortgage guaranty net claim reserve levels can be affected adversely by several factors. These include changes in the mix of insured business toward loans that have a higher probability of default, increases in the average risk per insured loan, the levels of estimated rescission and claim denial activity, the deterioration of regional or national economic conditions leading to a reduction in borrowers' income and thus their ability to make mortgage payments, and reductions in housing values and/or increases in housing supply that can raise the rate at which defaults evolve into

claims and affect their overall severity.

Title insurance loss reserve levels can be impacted adversely by such developments as reduced loan refinancing activity, the effect of which can be to lengthen the period during which title policies remain exposed to loss emergence. Such reserve levels can also be impacted by reductions in either property values or the volume of transactions which, by virtue of the speculative nature of some real estate developments, can lead to increased occurrences of fraud, defalcations or mechanics' liens.

With respect to Old Republic's small life and health insurance operations, reserve adequacy may be affected adversely by greater than anticipated medical care cost inflation as well as greater than expected frequency and severity of claims. In life insurance, as in general insurance, concentrations of insured lives coupled with a catastrophic event would represent the Company's largest exposure.

Loss reserve uncertainty is illustrated by the variability in loss reserve development presented in the schedule which appears under Item 1 of this Annual Report. That schedule shows the cumulative loss reserve development for each of

the past ten years through December 31, 2011 for the general insurance business which currently represents 66.4% of Old Republic's total loss and loss adjustment expense reserves, net of reinsurance reserves. For each of these ten calendar years, prior accident years' general insurance claim reserves have developed, as a percentage of the original estimates, within a range of -8.9% unfavorable in 2001 to a 13.4% favorable development in 2005. For the ten year period the net development has averaged 6.0% favorable.

On a consolidated basis, which includes all coverages provided by the Company, the one year development on prior year loss reserves over the same ten year period has ranged from -2.2% unfavorable to 11.4% favorable and averaged 2.8%. Although management does not have a practical business reason for making projections of likely outcomes of future loss developments, its analysis and evaluation of Old Republic's existing business mix, current aggregate loss reserve levels, and loss development patterns suggests the reasonable likelihood that 2011 year-end loss reserves could ultimately develop within a range of +/- 5%. The most significant factors impacting the potential reserve development for each of the Company's insurance segments is discussed above. While the Company has generally experienced favorable loss developments for the latest ten year period on an overall basis, the current analysis of loss development factors and economic conditions influencing the Company's insurance coverages indicates a gradual downward trend in favorable development during the most recent three years, with respect to general insurance. In management's opinion, the other segments' loss reserve development patterns show greater variability due to changes in economic conditions which cannot be reasonably anticipated. Consequently, management believes that using a 5% potential range of reserve development provides a reasonable benchmark for a sensitivity analysis of the Company's consolidated reserves as of December 31, 2011.

Reinsurance Programs

To maintain premium production within its capacity and limit maximum losses and risks for which it might become liable under its policies, Old Republic 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. Further discussion of the Company's reinsurance programs can be found in Part 1 of this Annual Report on Form 10-K.

Subsidiaries within the general insurance segment have generally obtained reinsurance coverage from independent insurance or reinsurance companies pursuant to excess of loss agreements. Under excess of loss reinsurance agreements the Company is generally reimbursed for claim costs exceeding contractually agreed-upon levels. During the three year period ended December 31, 2011, the Company's net retentions have risen gradually within the general insurance segment; however, such changes have not had a material impact on the Company's consolidated financial statements.

Generally, mortgage guaranty insurance risk has historically been reinsured through excess of loss contracts through insurers owned by or affiliated with lending institutions and financial and other intermediaries whose customers are insured by Old Republic. Effective December 31, 2008, the Company discontinued excess of loss reinsurance cessions to lenders' captive insurance companies for all new production originated subsequent to the effective date. Traditional pro-rata ("quota share") reinsurance arrangements will continue to be offered by the Company. During 2010 and 2009, the Mortgage Guaranty Group recaptured business previously ceded to several captives. In substance, the transactions are cut-off reinsurance commutation arrangements whereby the captives have remitted to the Company the reserves on existing claim obligations and a risk premium for claims that will occur after the recapture date. The impact of these transactions is summarized in the Executive Summary and other relevant sections within the Management Analysis of Financial Position and Results of Operations. Except for relatively few facultative reinsurance cessions covering large risks, the title insurance segment does not utilize reinsurance to manage its insurance risk.

The Company does not anticipate any significant changes to its reinsurance programs during 2012.

Expenses: Underwriting Acquisition and Other Expenses

The following table sets forth the expense ratios registered by each major business segment and in consolidation for the periods shown:

Years Ended December 31:	General	Mortgage	Title	Consolidated
2009	25.8	% 12.6	% 93.8	% 41.8
2010	26.6	14.4	93.0	48.0
2011	25.6	% 23.9	% 91.2	% 48.0

Variations in the Company's consolidated expense ratios reflect a continually changing mix of coverages sold and attendant costs of producing business in the Company's three largest business segments. To a significant degree, expense ratios for both the general and title insurance segments are mostly reflective of variable costs, such as commissions or similar charges, that rise or decline along with corresponding changes in premium and fee income. Moreover, general operating expenses can contract or expand in differing proportions due to varying levels of operating efficiencies and expense management opportunities in the face of changing market conditions.

The General Insurance expense ratio has remained relatively flat for 2009 through 2011. The Mortgage Guaranty segment's expense ratios for the periods shown are reflective of the continued emphasis on operating efficiency negated by ongoing reductions in the earned premium base. In addition, the 2011 mortgage guaranty expense ratio reflects an

accrual of employment severance and similar costs, and the elimination of previously deferred acquisition costs. As a consequence of the previously mentioned GAAP accounting requirement for reinsurance contract terminations, this segment's 2009 expense ratio dropped from 14.3% to 12.6%. Production expenses for the Title segment were relatively lower as a percentage of premium and fees revenue, but rose dollar-wise in reflection of greater personnel and other production costs related to the higher revenues attained and anticipated.

Expenses: Total

The composite ratios of the above summarized net claims, benefits and underwriting expenses that reflect the sum total of all the factors enumerated above have been as follows:

Years Ended December 31:	General	Mortgage	Title	Consolidated
2009	102.1	% 188.6	% 101.7	% 118.5 %
2010	103.0	168.0	101.0	111.4
2011	96.9	% 261.5	% 99.0	% 115.8 %

Expenses: Income Taxes

The effective consolidated income tax rates (credits) were (40.6%) in 2011, (9.2%) in 2010 and (63.8%) in 2009. The rates for each year reflect primarily the varying proportions of pretax operating income (loss) derived from partially tax sheltered investment income (principally state and municipal tax-exempt interest), the combination of fully taxable investment income, realized investment gains or losses, and underwriting and service income, and judgments about the recoverability of deferred tax assets. A valuation allowance of \$54.0 was established against a deferred tax asset related to the Company's realized losses on investments at December 31, 2008. During 2009, this valuation allowance was eliminated following an increase in the fair value of the Company's investment portfolio. As of December 31, 2011 and 2010, a valuation allowance was established for certain net operating loss and tax credit carryforwards which the Company did not expect to realize.

OTHER INFORMATION

Reference is here made to "Information About Segments of Business" appearing elsewhere herein.

Historical data pertaining to the operating results, liquidity, and other performance indicators applicable to an insurance enterprise such as Old Republic are not necessarily indicative of results to be achieved in succeeding years. In addition to the factors cited below, the long-term nature of the insurance business, seasonal and annual patterns in premium production and incidence of claims, changes in yields obtained on invested assets, changes in government policies and free markets affecting inflation rates and general economic conditions, and changes in legal precedents or the application of law affecting the settlement of disputed and other claims can have a bearing on period-to-period comparisons and future operating results.

Some of the oral or written statements made in the Company's reports, press releases, and conference calls following earnings releases, can constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Of necessity, any such forward-looking statements involve assumptions, uncertainties, and risks that may affect the Company's future performance. With regard to Old Republic's General Insurance segment, its results can be affected, in particular, by the level of market competition, which is typically a function of available capital and expected returns on such capital among competitors, the levels of interest and inflation rates, and periodic changes in claim frequency and severity patterns caused by natural disasters, weather conditions, accidents, illnesses, work-related injuries, and unanticipated external events. Mortgage Guaranty and Title Insurance results can be affected by similar factors and by changes in national and regional housing demand and values, the availability and cost of mortgage loans, employment trends, and default rates on mortgage loans. Mortgage Guaranty results, in particular, may also be affected by various risk-sharing arrangements with business producers as well as the risk management and pricing policies of government sponsored enterprises. Life and health insurance earnings can be affected by the levels of employment and consumer spending, variations in mortality and health trends, and changes in policy lapsation rates. At the parent holding company level, operating earnings or losses are generally reflective of the amount of debt outstanding and its cost, interest income on temporary holdings of short-term investments, and period-to-period variations in the costs of administering the Company's widespread operations.

A more detailed listing and discussion of the risks and other factors which affect the Company's risk-taking insurance business are included in Part I, Item 1A - Risk Factors, of this Annual Report to the Securities and Exchange Commission, which Item is specifically incorporated herein by reference.

Any forward-looking statements or commentaries speak only as of their dates. Old Republic undertakes no obligation to publicly update or revise any and all such comments, whether as a result of new information, future events or otherwise, and accordingly they may not be unduly relied upon.

Item 7A - Quantitative and Qualitative Disclosure About Market Risk
(\$ in Millions)

Market risk represents the potential for loss due to adverse changes in the fair value of financial instruments as a result of changes in interest rates, equity prices, foreign exchange rates and commodity prices. Old Republic's primary market risks consist of interest rate risk associated with investments in fixed maturities and equity price risk associated with investments in equity securities. The Company has no material foreign exchange or commodity risk.

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

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

The following table illustrates the hypothetical effect on the fixed income and equity investment portfolios resulting from movements in interest rates and fluctuations in the equity securities markets, using the S&P 500 index as a proxy, at December 31, 2011:

	Estimated Fair Value	Hypothetical Change in Interest Rates or S&P 500	Estimated Fair Value After Hypothetical Change in Interest Rates or S&P 500
Interest Rate Risk:			
Fixed Maturities	\$8,393.2	100 basis point rate increase	\$8,037.3
		200 basis point rate increase	7,681.5
		100 basis point rate decrease	8,749.1
		200 basis point rate decrease	\$9,104.9
Equity Price Risk:			
Equity Securities	\$580.8	10 % increase in the S&P 500	\$640.0

20	% increase in the S&P 500	699.3
10	% decline in the S&P 500	521.6
20	% decline in the S&P 500	\$462.3

Item 8 - Financial Statements and Supplementary Data

Listed below are the consolidated financial statements included herein for Old Republic International Corporation and Subsidiaries:

	Page No.
Consolidated Balance Sheets	62
Consolidated Statements of Income	63
Consolidated Statements of Comprehensive Income	63
Consolidated Statements of Preferred Stock and Common Shareholders' Equity	64
Consolidated Statements of Cash Flows	65
Notes to Consolidated Financial Statements	66
Reports of Independent Registered Public Accounting Firms	94

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

	December 31,	
	2011	2010
Assets		
Investments:		
Available for sale:		
Fixed maturity securities (at fair value) (amortized cost: \$7,884.6 and \$8,070.4)	\$8,393.2	\$8,532.2
Equity securities (at fair value) (adjusted cost: \$341.9 and \$402.8)	580.8	672.4
Short term investments (at fair value which approximates cost)	1,476.2	1,004.0
Miscellaneous investments	35.3	40.7
Total	10,485.6	10,249.4
Other investments	9.8	9.8
Total investments	10,495.5	10,259.3
Other Assets:		
Cash	93.0	127.3
Securities and indebtedness of related parties	16.9	12.0
Accrued investment income	96.5	104.1
Accounts and notes receivable	1,039.0	1,022.9
Federal income tax recoverable: Current	73.5	44.6
Deferred	116.7	45.3
Prepaid federal income taxes	1.0	102.9
Reinsurance balances and funds held	210.0	205.4
Reinsurance recoverable: Paid losses	100.7	96.0
Policy and claim reserves	3,143.1	3,166.4
Deferred policy acquisition costs	197.6	230.6
Sundry assets	466.2	465.3
Total Other Assets	5,554.9	5,623.4
Total Assets	\$16,050.4	\$15,882.7
Liabilities, Preferred Stock, and Common Shareholders' Equity		
Liabilities:		
Losses, claims, and settlement expenses	\$8,786.6	\$8,814.6
Unearned premiums	1,268.8	1,232.4
Other policyholders' benefits and funds	193.1	192.4
Total policy liabilities and accruals	10,248.6	10,239.5
Commissions, expenses, fees, and taxes	457.3	424.0
Reinsurance balances and funds	380.5	383.8
Debt	912.8	475.0
Sundry liabilities	278.4	238.8
Commitments and contingent liabilities		
Total Liabilities	12,277.8	11,761.3
Preferred Stock (1)	—	—
Common Shareholders' Equity:		

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Common stock (1)	259.3	259.2
Additional paid in capital	657.9	649.6
Retained earnings	2,472.4	2,791.4
Accumulated other comprehensive income (loss)	416.0	459.1
Unallocated ESSOP shares (at cost)	(33.2	) (38.0
Treasury stock (at cost)(1)	—	—
Total Common Shareholders' Equity	3,772.5	4,121.4
Total Liabilities, Preferred Stock and Common Shareholders' Equity	\$ 16,050.4	\$ 15,882.7

(1) At December 31, 2011 and 2010, there were 75,000,000 shares of \$0.01 par value preferred stock authorized, of which no shares were outstanding. As of the same dates, there were 500,000,000 shares of common stock, \$1.00 par value, authorized, of which 259,328,278 and 259,222,360 were issued as of December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, there were 100,000,000 shares of Class B Common Stock, \$1.00 par value, authorized, of which no shares were issued. There were no common shares classified as treasury stock as of December 31, 2011 and 2010.

See accompanying Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2011	2010	2009
Revenues:			
Net premiums earned	\$3,695.5	\$3,225.5	\$3,111.5
Title, escrow, and other fees	354.5	348.0	277.4
Total premiums and fees	4,050.1	3,573.5	3,388.9
Net investment income	364.6	379.0	383.5
Other income	115.2	41.0	24.8
Total operating revenues	4,529.9	3,993.5	3,797.2
Realized investment gains (losses):			
From sales	165.8	110.3	15.9
From impairments	(50.2)	) (1.2)	) (9.5)
Total realized investment gains (losses)	115.5	109.1	6.3
Total revenues	4,645.5	4,102.7	3,803.6
Benefits, Claims and Expenses:			
Benefits, claims and settlement expenses	2,730.6	2,253.2	2,591.0
Dividends to policyholders	15.6	12.1	7.8
Underwriting, acquisition, and other expenses	2,072.4	1,777.7	1,454.0
Interest and other charges	63.4	32.0	24.2
Total expenses	4,882.2	4,075.1	4,077.2
Income (loss) before income taxes (credits)	(236.7)	) 27.6	) (273.6)
Income Taxes (Credits):			
Current	(36.7)	) (22.6)	) 56.5
Deferred	(59.4)	) 20.1	) (230.9)
Total	(96.1)	) (2.5)	) (174.4)
Net Income (Loss)	\$(140.5)	) \$30.1	) \$(99.1)
Net Income (Loss) Per Share:			
Basic	\$(.55)	) \$.13	) \$(.42)
Diluted	\$(.55)	) \$.13	) \$(.42)
Average shares outstanding:			
Basic	255,045,210	241,075,488	235,657,425
Diluted	255,045,210	241,327,073	235,657,425
Dividends Per Common Share:			
Cash	\$.70	\$.69	\$.68

Consolidated Statements of Comprehensive Income

	Years Ended December 31,		
	2011	2010	2009
Net Income (Loss) As Reported	\$(140.5)	) \$30.1	) \$(99.1)

Other comprehensive income (loss):			
Post-tax net unrealized gains (losses) on securities	7.5	101.7	376.1
Net adjustment related to defined benefit plans, net of tax	(36.2	) (2.0	) .3
Other adjustments	(14.3	) 5.5	18.9
Net adjustments	(43.0	) 105.2	395.4
Comprehensive Income (Loss)	\$(183.5	) \$135.3	\$296.3

See accompanying Notes to Consolidated Financial Statements.

Old Republic International Corporation and Subsidiaries
Consolidated Statements of Preferred Stock
and Common Shareholders' Equity
(\$ in Millions)

	Years Ended December 31,		
	2011	2010	2009
Convertible Preferred Stock:			
Balance, beginning and end of year	\$—	\$—	\$—
Common Stock:			
Balance, beginning of year	\$259.2	\$240.6	\$240.5
Dividend reinvestment plan	—	—	—
Net issuance of shares under stock based compensation plans	—	.7	—
Conversion of senior debentures	—	—	—
Acquisition of subsidiary	—	17.7	—
Balance, end of year	\$259.3	\$259.2	\$240.6
Additional Paid-in Capital:			
Balance, beginning of year	\$649.6	\$412.4	\$405.0
Dividend reinvestment plan	.8	.8	.8
Net issuance of shares under stock based compensation plans	—	1.6	.4
Conversion of senior debentures	—	—	—
Acquisition of subsidiary	—	228.7	—
Stock based compensation	3.4	4.1	4.9
ESSOP shares released	1.0	1.7	1.1
Acquisition of non-controlling interest	2.7	—	—
Balance, end of year	\$657.9	\$649.6	\$412.4
Retained Earnings:			
Balance, beginning of year	\$2,791.4	\$2,927.3	\$3,186.5
Net income (loss)	(140.5	) 30.1	(99.1)
Dividends on common stock: cash	(178.4	) (166.1	) (160.0)
Balance, end of year	\$2,472.4	\$2,791.4	\$2,927.3
Accumulated Other Comprehensive Income (Loss):			
Balance, beginning of year	\$459.1	\$353.7	\$(41.7)
Foreign currency translation and other adjustments	(14.3	) 5.5	18.9
Net unrealized gains (losses) on securities, net of tax	7.5	101.7	376.1
Net adjustment related to defined benefit pension plans, net of tax	(36.2	) (2.0	) .3
Balance, end of year	\$416.0	\$459.1	\$353.7
Unallocated ESSOP Shares:			
Balance, beginning of year	\$(38.0	) \$(42.7	) \$(50.0)
ESSOP shares released	4.8	4.6	7.2
Balance, end of year	\$(33.2) \$(38.0) \$(42.7)
Treasury Stock:			

Balance, beginning and end of year	\$—	\$—	\$—
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See accompanying Notes to Consolidated Financial Statements.

64

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

	Years Ended December 31,		
	2011	2010	2009
Cash flows from operating activities:			
Net income (loss)	\$(140.5	) \$30.1	\$(99.1)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Deferred policy acquisition costs	32.7	20.8	18.0
Premiums and other receivables	(16.1	) 81.1	18.5
Unpaid claims and related items	9.3	(372.7	) 583.0
Unearned premiums and other policyholders' liabilities	23.1	(76.5	) (77.0)
Income taxes	(88.5	) (17.5	) (199.9)
Prepaid federal income taxes	101.9	118.5	241.9
Reinsurance balances and funds	(12.4	) (48.5	) (32.9)
Realized investment (gains) losses	(115.5	) (109.1	) (6.3)
Accounts payable, accrued expenses and other	111.2	91.5	87.0
Total	(94.9	) (282.2	) 532.9
Cash flows from investing activities:			
Fixed maturity securities:			
Maturities and early calls	926.8	882.0	1,047.6
Sales	1,769.5	1,055.5	153.9
Sales of:			
Equity securities	86.6	116.6	24.9
Other - net	31.2	7.5	5.6
Cash balances of subsidiaries acquired	—	17.8	2.4
Purchases of:			
Fixed maturity securities	(2,409.6	) (1,556.6	) (1,727.4)
Equity securities	(65.0	) (129.4) —
Other - net	(50.8	) (33.4	) (19.6)
Purchase of a business	—	—	(6.0)
Net decrease (increase) in short-term investments	(476.0	) 140.0	62.3
Other net	—	—	(8.4)
Total	(187.1	) 499.8	(464.5)
Cash flows from financing activities:			
Issuance of debentures and notes	537.0	215.0	576.2
Issuance of common shares	1.2	3.2	1.4
Redemption of debentures and notes	(112.1	) (218.9	) (472.8)
Dividends on common shares	(178.4	) (166.1	) (160.0)
Other net	.1	(.7) —
Total	247.8	(167.6	) (55.1)
Increase (decrease) in cash:	(34.2	) 50.0	13.3
Cash, beginning of year	127.3	77.3	63.9
Cash, end of year	\$93.0	\$127.3	\$77.3

Supplemental cash flow information:

Cash paid (received) during the period for: Interest	\$42.0	\$28.4	\$17.0
Income taxes	\$(6.9	) \$15.5	\$24.3
Non-cash transaction: Purchase consideration for PMA merger	\$—	\$247.2	\$—

See accompanying Notes to Consolidated Financial Statements.

Old Republic International Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(\$ in Millions, Except as Otherwise Indicated)

Old Republic International Corporation is a Chicago-based insurance holding company with subsidiaries engaged mainly in the general (property and liability), mortgage guaranty and title insurance businesses. In this report, "Old Republic", or "the Company" refers to Old Republic International Corporation and its subsidiaries as the context requires. The aforementioned insurance segments are organized as the Old Republic General Insurance, Mortgage Guaranty and Title Insurance Groups, and references herein to such groups apply to the Company's subsidiaries engaged in the respective segments of business. Results of a small life and health insurance business are included in the corporate and other caption of this report.

Note 1 - Summary of Significant Accounting Policies - The significant accounting policies employed by Old Republic International Corporation and its subsidiaries are set forth in the following summary.

(a) Accounting Principles - The Company's insurance subsidiaries are managed pursuant to the laws and regulations of the various states in which they operate. As a result, the subsidiaries operate and maintain their accounts in conformity with accounting practices permitted by various states' insurance regulatory authorities. Federal income taxes and dividends to shareholders are based on financial statements and reports complying with such practices. The statutory accounting requirements vary from the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") of accounting principles generally accepted in the United States of America ("GAAP") in the following major respects: (1) the costs of selling insurance policies are charged to operations immediately, while the related premiums are taken into income over the terms of the policies; (2) investments in fixed maturity securities designated as available for sale are generally carried at amortized cost rather than their estimated fair value; (3) certain assets classified as "non-admitted assets" are excluded from the balance sheet through a direct charge to earned surplus; (4) changes in allowed deferred income tax assets or liabilities are recorded directly in earned surplus and not through the income statement; (5) mortgage guaranty contingency reserves intended to provide for future catastrophic losses are established as a liability through a charge to earned surplus whereas, GAAP does not allow provisions for future catastrophic losses; (6) title insurance premium reserves, which are intended to cover losses that will be reported at a future date are based on statutory formulas, and changes therein are charged in the income statement against each year's premiums written; (7) certain required formula-derived reserves for general insurance in particular are established for claim reserves in excess of amounts considered adequate by the Company as well as for credits taken relative to reinsurance placed with other insurance companies not licensed in the respective states, all of which are charged directly against earned surplus; and (8) surplus notes are classified as equity. In consolidating the statutory financial statements of its insurance subsidiaries, the Company has therefore made necessary adjustments to conform their accounts with GAAP. The following table reflects a summary of all such adjustments:

	Shareholders' Equity		Net Income (Loss)		
	December 31,		Years Ended December 31,		
	2011	2010	2011	2010	2009
Statutory totals of insurance company subsidiaries:					
General	\$2,849.7	\$2,819.1	292.5	\$255.6	(a) \$203.9
Mortgage Guaranty	113.6	344.5	(422.6)	(196.3)	(474.8)
Title	236.6	213.0	46.7	14.6	(9.7)
Life & Health	70.1	70.3	4.8	4.3	5.9
Sub-total	3,270.0	3,446.9	(78.6)	78.2	(274.7)
GAAP totals of non-insurance company subsidiaries and consolidation adjustments	140.9	179.5	(38.7)	(41.2)	(24.6)
Unadjusted totals	3,411.1	3,626.6	(117.4)	36.8	(299.2)

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Adjustments to conform to GAAP statements:

Deferred policy acquisition costs	193.3	224.6	(30.6) (19.8) (19.5)
Fair value of fixed maturity securities	468.8	438.5	—	—	—	
Non-admitted assets	99.0	85.4	—	—	—	
Deferred income taxes	(93.8	) (196.0	) 73.4	49.8	216.3	
Mortgage contingency reserves	8.2	184.6	—	—	—	
Title unearned premiums	360.4	345.8	14.6	6.7	2.9	
Loss reserves	(290.4	) (240.7	) (49.6	) (21.7	) .5	
Surplus notes	(365.0	) (340.0) —	—	—	
Sundry adjustments	(19.5	) (7.8	) (30.9	) (21.6	) (.4)
Total adjustments	361.4	494.7	(23.1	) (6.6	) 200.0	
Consolidated GAAP totals	\$3,772.5	\$4,121.4	\$(140.5	) \$30.1	\$(99.1)

(a) Includes the effect of PMA Capital Corporation's statutory results from the date of acquisition through year-end, excluding adjustments to conform to Old Republic's accounting policies.

The preparation of financial statements in conformity with either statutory practices or GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

(b) Consolidation Practices - The consolidated financial statements include the accounts of the Company and those of its majority owned insurance underwriting and service subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying financial statements incorporate a new pronouncement which modifies current accounting guidance governing consolidation of variable interest entities, effective January 1, 2010. The Company's adoption of this pronouncement had no effect on the conduct of its business and did not materially affect its reported financial condition or net income (loss).

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. Accordingly, operating results, acquired assets, and assumed liabilities associated with PMA's business are included in the Company's financial statements from that date forward. (See Note 8.)

(c) Statement Presentation - Amounts shown in the consolidated financial statements and applicable notes are stated (except as otherwise indicated and as to share data) in millions, which amounts may not add to totals shown due to truncation. Necessary reclassifications are made in prior periods' financial statements whenever appropriate to conform to the most current presentation.

(d) Investments - The Company may classify its invested assets in terms of those assets relative to which it either (1) has the positive intent and ability to hold until maturity, (2) has available for sale or (3) has the intention of trading. As of December 31, 2011 and 2010, substantially all the Company's invested assets were classified as "available for sale."

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

The Company reviews the status and fair value changes of each of its investments on at least a quarterly basis during the year, and estimates of other-than-temporary impairments ("OTTI") in the portfolio's value are evaluated and established at each quarterly balance sheet date. In reviewing investments for OTTI, the Company, in addition to a security's market price history, considers the totality of such factors as the issuer's operating results, financial condition and liquidity, its ability to access capital markets, credit rating trends, most current audit opinion, industry and securities markets conditions, and analyst expectations to reach its conclusions. Sudden fair value declines caused by such adverse developments as newly emerged or imminent bankruptcy filings, issuer default on significant obligations, or reports of financial accounting developments that bring into question the validity of previously reported earnings or financial condition, are recognized as realized losses as soon as credible publicly available information emerges to confirm such developments. Absent issuer-specific circumstances that would result in a contrary conclusion, any equity security with an unrealized investment loss amounting to a 20% or greater decline for a six month period is considered OTTI. In the event the Company's estimate of OTTI is insufficient at any point in time, future periods' net income (loss) would be adversely affected by the recognition of additional realized or impairment losses, but its financial position would not necessarily be affected adversely inasmuch as such losses, or a portion of them, could have been recognized previously as unrealized losses in shareholders' equity. The Company recognized \$50.2, \$1.2 and \$9.5 of OTTI adjustments for the years ended December 31, 2011, 2010 and 2009,

respectively.

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed Maturity Securities:				
December 31, 2011:				
U.S. & Canadian Governments	\$1,104.0	\$78.3	\$.1	\$1,182.1
Tax-exempt	597.1	23.4	—	620.5
Corporate	6,183.5	414.1	7.0	6,590.5
	\$7,884.6	\$515.9	\$7.2	\$8,393.2
December 31, 2010:				
U.S. & Canadian Governments	\$1,366.1	\$57.6	\$4.3	\$1,419.4
Tax-exempt	1,391.0	69.2	.4	1,459.8
Corporate	5,313.2	360.2	20.5	5,652.9
	\$8,070.4	\$487.0	\$25.3	\$8,532.2

The amortized cost and estimated fair value of fixed maturity securities at December 31, 2011, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities since borrowers may have the right to call

or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Fixed Maturity Securities:		
Due in one year or less	\$943.0	\$957.8
Due after one year through five years	3,344.2	3,538.1
Due after five years through ten years	3,317.4	3,604.2
Due after ten years	279.8	292.9
	\$7,884.6	\$8,393.2

Bonds and other investments with a statutory carrying value of \$473.8 as of December 31, 2011 were on deposit with governmental authorities by the Company's insurance subsidiaries to comply with insurance laws.

A summary of the Company's equity securities reflecting reported adjusted cost, net of OTTI adjustments totaling \$138.5 and \$245.4 at December 31, 2011 and 2010, respectively, follows:

	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2011	\$341.9	\$243.5	\$4.6	\$580.8
December 31, 2010	\$402.8	\$271.7	\$2.2	\$672.4

The following table reflects the Company's gross unrealized losses and fair value, aggregated by category and length of time that individual securities have been in an unrealized loss position employing fair value comparisons with an issuer's adjusted cost at December 31, 2011 and 2010:

	12 Months or Less		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2011:						
Fixed Maturity Securities:						
U.S. & Canadian Governments	\$35.5	\$.1	\$—	\$—	\$35.5	\$.1
Tax-exempt	2.1	—	.6	—	2.7	—
Corporate	402.9	6.7	1.7	.2	404.7	7.0
Subtotal	440.6	7.0	2.3	.2	443.0	7.2
Equity Securities	98.4	4.5	—	—	98.5	4.6
Total	\$539.1	\$11.5	\$2.4	\$.3	\$541.5	\$11.9
December 31, 2010:						
Fixed Maturity Securities:						
U.S. & Canadian Governments	\$318.7	\$4.3	\$—	\$—	\$318.7	\$4.3
Tax-exempt	14.2	.4	—	—	14.2	.4
Corporate	729.5	19.3	26.0	1.2	755.5	20.5
Subtotal	1,062.4	24.1	26.0	1.2	1,088.5	25.3
Equity Securities	6.3	—	96.7	2.1	103.0	2.2
Total	\$1,068.8	\$24.1	\$122.7	\$3.4	\$	