

OLD REPUBLIC INTERNATIONAL CORP

Form 10-Q

November 03, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

Quarterly report pursuant to section 13 or 15(d) of the Security Exchange Act of 1934
for the quarterly period ended: September 30, 2017 or

Transition report pursuant to section 13 or 15(d) of the Security Exchange Act of 1934

Commission File Number: 001-10607

OLD REPUBLIC INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

No. 36-2678171

(State or other jurisdiction of (IRS Employer Identification No.)

incorporation or organization)

307 North Michigan Avenue, Chicago, Illinois 60601

(Address of principal executive office) (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes: No:

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Class	Shares Outstanding September 30, 2017
Common Stock / \$1 par value	263,806,691

There are 52 pages in this report

OLD REPUBLIC INTERNATIONAL CORPORATION

Report on Form 10-Q / September 30, 2017

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

	(Unaudited)	
	September 30, 2017	December 31, 2016
Assets		
Investments:		
Available for sale:		
Fixed maturity securities (at fair value) (amortized cost: \$8,060.5 and \$8,019.6)	\$ 8,239.4	\$ 8,170.9
Equity securities (at fair value) (cost: \$2,514.3 and \$2,404.9)	3,140.2	2,896.1
Short-term investments (at fair value which approximates cost)	845.4	681.6
Miscellaneous investments	29.1	31.2
Total	12,254.3	11,780.0
Held to maturity:		
Fixed maturity securities (at amortized cost) (fair value: \$1,078.6 and \$947.4)	1,073.0	974.8
Other investments	3.3	2.9
Total investments	13,330.8	12,757.7
Other Assets:		
Cash	139.2	145.7
Securities and indebtedness of related parties	18.8	17.6
Accrued investment income	96.2	92.3
Accounts and notes receivable	1,589.8	1,390.2
Federal income tax recoverable: Current	—	14.9
Prepaid federal income taxes	114.3	82.4
Reinsurance balances and funds held	130.6	127.7
Reinsurance recoverable: Paid losses	58.4	63.4
Policy and claim reserves	3,510.4	3,168.1
Deferred policy acquisition costs	302.1	274.0
Sundry assets	456.2	457.1
Total Other Assets	6,416.5	5,833.8
Total Assets	\$ 19,747.4	\$ 18,591.6
Liabilities, Preferred Stock, and Common Shareholders' Equity		
Liabilities:		
Losses, claims, and settlement expenses	\$ 9,694.4	\$ 9,206.0
Unearned premiums	2,109.9	1,842.9
Other policyholders' benefits and funds	198.7	192.0
Total policy liabilities and accruals	12,003.1	11,241.0
Commissions, expenses, fees, and taxes	464.1	474.4
Reinsurance balances and funds	603.5	530.3
Federal income tax payable: Current	25.2	—
Deferred	71.4	42.6
Debt	1,526.9	1,528.7
Sundry liabilities	322.8	302.6
Commitments and contingent liabilities		
Total Liabilities	15,017.3	14,119.9
Preferred Stock (1)	—	—
Common Shareholders' Equity:		
Common stock (1)	263.8	262.7

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Additional paid-in capital	735.7	713.8
Retained earnings	3,323.1	3,210.6
Accumulated other comprehensive income	441.4	323.6
Unallocated ESSOP shares (at cost)	(34.1	) (39.2)
Total Common Shareholders' Equity	4,730.0	4,471.6
Total Liabilities, Preferred Stock and Common Shareholders' Equity	\$ 19,747.4	\$ 18,591.6

(1) At September 30, 2017 and December 31, 2016, 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 263,806,691 and 262,719,660 were issued as of September 30, 2017 and December 31, 2016, respectively. At September 30, 2017 and December 31, 2016, there were 100,000,000 shares of Class B Common Stock, \$1.00 par value, authorized, of which no shares were issued.

See accompanying Notes to Consolidated Financial Statements.

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

	Quarters Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Revenues:				
Net premiums earned	\$1,312.0	\$ 1,238.6	\$3,752.6	\$ 3,582.1
Title, escrow, and other fees	121.4	126.7	344.6	342.9
Total premiums and fees	1,433.4	1,365.4	4,097.3	3,925.1
Net investment income	103.3	95.7	305.7	287.0
Other income	20.4	27.5	76.3	81.4
Total operating revenues	1,557.2	1,488.7	4,479.4	4,293.6
Realized investment gains (losses):				
From sales	35.8	12.2	57.5	63.1
From impairments	—	(4.9	) —	(4.9
Total realized investment gains (losses)	35.8	7.2	57.5	58.1
Total revenues	1,593.0	1,496.0	4,536.9	4,351.7
Benefits, Claims and Expenses:				
Benefits, claims and settlement expenses	759.0	590.7	1,927.1	1,747.8
Dividends to policyholders	7.3	4.4	17.5	14.3
Underwriting, acquisition, and other expenses	751.1	724.0	2,173.1	2,060.3
Interest and other charges	15.8	12.6	48.3	34.0
Total expenses	1,533.3	1,331.9	4,166.2	3,856.5
Income before income taxes (credits)	59.6	164.0	370.7	495.2
Income Taxes (Credits):				
Current	52.9	49.4	138.4	145.2
Deferred	(39.4	) 3.6	(28.6	) 14.9
Total	13.4	53.1	109.7	160.2
Net Income	\$46.1	\$ 110.9	\$260.9	\$ 335.0
Net Income Per Share:				
Basic	\$.18	\$.43	\$1.00	\$ 1.29
Diluted	\$.17	\$.39	\$.91	\$ 1.17
Average shares outstanding:				
Basic	261,380,897	259,414,230	261,181,220	259,227,605
Diluted	298,529,628	296,444,432	298,559,752	296,193,090
Dividends Per Common Share:				
Cash	\$.1900	\$.1875	\$.5700	\$.5625

See accompanying Notes to Consolidated Financial Statements.

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

	Quarters Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Net Income As Reported	\$46.1	\$110.9	\$260.9	\$335.0
Other comprehensive income (loss):				
Unrealized gains (losses) on securities:				
Unrealized gains (losses) on securities before reclassifications	124.1	7.5	220.0	596.5
Amounts reclassified as realized investment gains from sales in the statements of income	(35.8)	(7.2)	(57.5)	(58.1)
Pretax unrealized gains (losses) on securities	88.3	.2	162.5	538.3
Deferred income taxes (credits)	31.0	—	56.9	188.2
Net unrealized gains (losses) on securities, net of tax	57.3	.1	105.5	350.1
Defined benefit pension plans:				
Net pension adjustment before reclassifications	—	—	—	.1
Amounts reclassified as underwriting, acquisition, and other expenses in the statements of income	.1	.1	.3	.4
Net adjustment related to defined benefit pension plans	.1	.1	.3	.6
Deferred income taxes (credits)	—	—	.1	.2
Net adjustment related to defined benefit pension plans, net of tax	—	.1	.2	.3
Foreign currency translation and other adjustments	8.6	(.5)	11.9	7.0
Net adjustments	66.1	(.2)	117.7	357.5
Comprehensive Income (Loss)	\$112.2	\$110.7	\$378.7	\$692.5

See accompanying Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30, 2017 2016	
Cash flows from operating activities:		
Net income	\$260.9	\$335.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred policy acquisition costs	(27.7)	(21.2)
Premiums and other receivables	(199.4)	(198.1)
Unpaid claims and related items	254.7	25.7
Unearned premiums and other policyholders' liabilities	164.2	87.1
Income taxes	11.9	13.7
Prepaid federal income taxes	(31.8)	(19.1)
Reinsurance balances and funds	75.0	112.0
Realized investment (gains) losses	(57.5)	(58.1)
Accounts payable, accrued expenses and other	71.8	124.9
Total	522.1	401.9
Cash flows from investing activities:		
Fixed maturity securities:		
Available for sale:		
Maturities and early calls	632.1	715.2
Sales	381.9	282.1
Sales of:		
Equity securities	233.5	374.6
Other - net	27.1	14.6
Purchases of:		
Fixed maturity securities:		
Available for sale	(1,046.7)	(876.4)
Held to maturity	(114.5)	(401.3)
Equity securities	(295.6)	(885.3)
Other - net	(44.3)	(35.5)
Net decrease (increase) in short-term investments	(163.4)	(37.4)
Other - net	—	—
Total	(389.9)	(849.5)
Cash flows from financing activities:		
Issuance of debentures and notes	—	576.8
Issuance of common shares	14.0	6.9
Redemption of debentures and notes	(3.9)	(3.5)
Dividends on common shares	(148.3)	(145.3)
Other - net	(.3)	(2.5)
Total	(138.6)	432.3
Increase (decrease) in cash	(6.4)	(15.1)

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Cash, beginning of period	145.7	159.8
Cash, end of period	\$139.2	\$144.6

Supplemental cash flow information:

Cash paid (received) during the period for: Interest	\$62.2	\$40.7
Income taxes	\$97.9	\$146.4

See accompanying Notes to Consolidated Financial Statements.

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

1. Accounting Policies and Basis of Presentation:

The accompanying consolidated financial statements have been prepared in conformity with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") of accounting principles generally accepted in the United States of America ("GAAP"). These interim financial statements should be read in conjunction with these notes and those included in the Company's 2016 Annual Report on Form 10-K incorporated herein by reference.

Pertinent accounting and disclosure pronouncements issued from time to time by the FASB are adopted by the Company as they become effective. In 2016, the Company adopted FASB guidance requiring additional disclosures about short-duration insurance contracts which provide additional information about insurance liabilities including the nature, amount, timing, and uncertainty of future cash flows related to those liabilities. The related interim disclosure requirements outlined in the guidance have been included in the pertinent note herein.

Effective January 1, 2017, the company adopted new FASB guidance on accounting for share-based payment award transactions. The Company's adoption of this guidance did not have a material impact on the consolidated financial statements.

In May 2014, the FASB issued a comprehensive revenue recognition standard which will be effective in 2018 and applies to all entities that have contracts with customers, except for those that fall within the scope of other standards, such as insurance contracts. In these regards, the Company has concluded that this standard will not have an impact on its insurance contract revenues, although, it is currently evaluating the impact on less significant revenue streams.

In January 2016, the FASB issued guidance on the recognition and measurement of financial instruments which will be effective in 2018. Among other changes, the standard will require the Company's equity investments to be measured at fair value with changes in fair value recognized in the consolidated statement of income.

In February 2016, the FASB issued guidance on lease accounting which will be effective in 2019 and requires balance sheet recognition of all leases with a term greater than 12 months.

In June 2016, the FASB issued guidance on accounting for credit losses on financial instruments which will be effective in 2020. The guidance will require immediate recognition of expected credit losses for certain financial instruments including reinsurance recoverables, held to maturity securities, and accounts and notes receivable. The guidance also modifies the impairment model for available for sale fixed maturities securities.

The Company is currently evaluating the foregoing lease and credit loss guidance to determine the potential impact of its adoption on its consolidated financial statements.

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

2. Common Share Data:

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

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	Quarters Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Numerator:				
Net income	\$46.1	\$ 110.9	\$260.9	\$ 335.0
Numerator for basic earnings per share - income available to common stockholders	46.1	110.9	260.9	335.0
Adjustment for interest expense incurred on assumed conversion of convertible notes	3.6	3.6	10.9	10.9
Numerator for diluted earnings per share - income available to common stockholders after assumed conversion of convertible notes	\$49.8	\$ 114.6	\$271.8	\$ 345.9
Denominator:				
Denominator for basic earnings per share - weighted-average shares (a)	261,380,594	261,142,230	261,181,250	262,605,605
Effect of dilutive securities - stock based compensation awards	1,349,148	1,328,657	1,603,514	1,428,205
Effect of dilutive securities - convertible senior notes	35,799,582	35,701,545	35,775,062	35,678,280
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversion of convertible notes (a)	298,529,324	298,164,432	298,559,826	298,712,190
Earnings per share: Basic	\$.18	\$.43	\$1.00	\$ 1.29
Diluted	\$.17	\$.39	\$.91	\$ 1.17
Anti-dilutive common stock equivalents excluded from earnings per share computations:				
Stock based compensation awards	1,403,500	1,403,500	1,403,500	1,403,500
Convertible senior notes	—	—	—	—
Total	1,403,500	1,403,500	1,403,500	1,403,500

(a) In calculating earnings per share, pertinent accounting rules require that common shares owned by the Company's Employee Savings and Stock Ownership Plan that are not yet allocated to participants in the plan be excluded from the calculation. Such shares are issued and outstanding and have the same voting and other rights applicable to all other common shares.

3. Investments:

The Company may classify its invested assets in terms of those assets relative to which it either (1) has the positive intent and ability to hold until maturity, (2) has available for sale or (3) has the intention of trading. As of September 30, 2017 and December 31, 2016, the majority of the Company's invested assets were classified as "available for sale."

Fixed maturity securities and other preferred and common stocks (equity securities) classified as "available for sale" are included at fair value with changes in such values, net of deferred income taxes, reflected directly in shareholders' equity while fixed maturity securities classified as "held to maturity" are carried at amortized cost. 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 the issuer's 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 consecutively during a six month period is considered OTTI. In the event the Company's estimate of OTTI is insufficient at any point in time, future periods' net income (loss) would be adversely affected by the recognition of additional realized or impairment losses, but its financial position would not necessarily be affected adversely inasmuch as such losses, or a portion of them, could have been recognized previously as unrealized losses in shareholders' equity. The Company recognized no OTTI adjustments for the quarter and nine months ended September 30, 2017 and \$4.9 for the quarter and nine months ended 2016.

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed Maturity Securities by Type:				
September 30, 2017:				
Available for sale:				
U.S. & Canadian Governments	\$ 1,476.4	\$ 11.6	\$ 3.5	\$ 1,484.5
Corporate	6,584.1	182.5	11.7	6,754.9
	\$ 8,060.5	\$ 194.1	\$ 15.3	\$ 8,239.4
Held to maturity:				
Tax-exempt	\$ 1,073.0	\$ 12.7	\$ 7.1	\$ 1,078.6
December 31, 2016:				
Available for sale:				
U.S. & Canadian Governments	\$ 1,419.7	\$ 12.6	\$ 5.5	\$ 1,426.8
Corporate	6,599.8	175.0	30.7	6,744.1
	\$ 8,019.6	\$ 187.6	\$ 36.3	\$ 8,170.9
Held to maturity:				
Tax-exempt	\$ 974.8	\$.7	\$ 28.0	\$ 947.4

	Amortized Cost	Estimated Fair Value
Fixed Maturity Securities Stratified by Contractual Maturity at September 30, 2017:		
Available for sale:		
Due in one year or less	\$ 1,001.7	\$ 1,009.3
Due after one year through five years	3,976.4	4,079.9
Due after five years through ten years	2,979.5	3,038.6
Due after ten years	102.7	111.5
	\$ 8,060.5	\$ 8,239.4
Held to maturity:		
Due in one year or less	\$ —	\$ —
Due after one year through five years	67.1	67.0
Due after five years through ten years	992.0	997.4
Due after ten years	13.8	14.1
	\$ 1,073.0	\$ 1,078.6

A summary of the Company's equity securities follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity Securities:				
September 30, 2017	\$2,514.3	\$ 659.8	\$ 33.8	\$ 3,140.2
December 31, 2016	\$2,404.9	\$ 516.2	\$ 25.0	\$ 2,896.1

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

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	12 Months or Less		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2017:						
Fixed Maturity Securities:						
U.S. & Canadian Governments	\$619.9	\$ 3.5	\$1.1	\$ —	\$621.0	\$ 3.5
Tax-exempt	445.4	6.9	12.7	.2	458.1	7.1
Corporate	1,063.3	9.1	131.6	2.6	1,195.0	11.7
Subtotal	2,128.7	19.6	145.5	2.8	2,274.2	22.5
Equity Securities	310.6	26.2	190.4	7.5	501.0	33.8
Total	\$2,439.3	\$ 45.9	\$335.9	\$ 10.4	\$2,775.3	\$ 56.4

December 31, 2016:

Fixed Maturity Securities:						
U.S. & Canadian Governments	\$699.0	\$ 5.5	\$1.3	\$ —	\$700.4	\$ 5.5
Tax-exempt	814.4	28.0	—	—	814.4	28.0
Corporate	1,250.5	20.3	246.2	10.3	1,496.8	30.7
Subtotal	2,764.0	53.9	247.5	10.4	3,011.6	64.3
Equity Securities	82.6	12.5	122.1	12.4	204.8	25.0
Total	\$2,846.7	\$ 66.5	\$369.7	\$ 22.8	\$3,216.5	\$ 89.4

At September 30, 2017, the Company held 583 fixed maturity and 13 equity securities in an unrealized loss position, representing 27.8% (as to fixed maturities) and 12.4% (as to equity securities) of the total number of such issues it held. At December 31, 2016, the Company held 718 fixed maturity and 8 equity securities in an unrealized loss position, representing 37.0% (as to fixed maturities) and 7.7% (as to equity securities) of the total number of such issues it held. Of the securities in an unrealized loss position, 33 and 46 fixed maturity securities and 3 and 2 equity securities, had been in a continuous unrealized loss position for more than 12 months as of September 30, 2017 and December 31, 2016, respectively. The unrealized losses on these fixed income securities are primarily deemed to reflect changes in the interest rate environment, while equity securities are unique to their own fundamental circumstance. As part of its assessment of other-than-temporary impairments, the Company considers its intent to continue to hold, and the likelihood that it will not be required to sell investment securities in an unrealized loss position until cost recovery, principally on the basis of its asset and liability maturity matching procedures.

Fair Value Measurements - Fair value is defined as the estimated price that is likely to be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (an exit price) at the measurement date. A fair value hierarchy is established that prioritizes the sources ("inputs") used to measure fair value into three broad levels: inputs based on quoted market prices in active markets (Level 1); observable inputs based on corroboration with available market data (Level 2); and unobservable inputs based on uncorroborated market data or a reporting entity's own assumptions (Level 3). Following is a description of the valuation methodologies and general classification used for financial instruments measured at fair value.

The Company uses quoted values and other data provided by a nationally recognized independent pricing source as inputs into its quarterly process for determining fair values of its fixed maturity and equity securities. To validate the techniques or models used by pricing sources, the Company's review process includes, but is not limited to: (i) initial and ongoing evaluation of methodologies used by outside parties to calculate fair value; and (ii) comparing other sources including the fair value estimates to its knowledge of the current market and to independent fair value

estimates provided by the investment custodian. The independent pricing source obtains market quotations and actual transaction prices for securities that have quoted prices in active markets and uses its own proprietary method for determining the fair value of securities that are not actively traded. In general, these methods involve the use of "matrix pricing" in which the independent pricing source uses observable market inputs including, but not limited to, investment yields, credit risks and spreads, benchmarking of like securities, broker-dealer quotes, reported trades and sector groupings to determine a reasonable fair value.

Level 1 securities include U.S. and Canadian Treasury notes, publicly traded common stocks, the quoted net asset value ("NAV") mutual funds, and most short-term investments in highly liquid money market instruments. Level 2 securities generally include corporate bonds, municipal bonds, and certain U.S. and Canadian government agency securities. Securities classified within Level 3 include non-publicly traded bonds and equity securities. There were no significant changes in the fair value of assets measured with the use of significant unobservable inputs as of September 30, 2017 and December 31, 2016.

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

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As of September 30, 2017:	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Available for sale:				
Fixed maturity securities:				
U.S. & Canadian Governments	\$732.3	\$752.1	\$ —	—\$1,484.5
Corporate	—	6,744.4	10.5	6,754.9
Equity securities	3,139.1	—	1.0	3,140.2
Short-term investments	845.4	—	—	845.4
Held to maturity:				
Fixed maturity securities:				
Tax-exempt	\$—	\$1,078.6	\$ —	—\$1,078.6
As of December 31, 2016:				
Available for sale:				
Fixed maturity securities:				
U.S. & Canadian Governments	\$772.1	\$654.7	\$ —	—\$1,426.8
Corporate	—	6,733.6	10.5	6,744.1
Equity securities	2,895.2	—	.9	2,896.1
Short-term investments	681.6	—	—	681.6
Held to maturity:				
Fixed maturity securities:				
Tax-exempt	\$—	\$947.4	\$ —	—\$947.4

There were no transfers between Levels 1, 2 or 3 during the quarter ended September 30, 2017.

Investment income is reported net of allocated expenses and includes appropriate adjustments for amortization of premium and accretion of discount on fixed maturity securities acquired at other than par value. Dividends on equity securities are credited to income on the ex-dividend date. Realized investment gains and losses, which result from sales or write-downs of securities, are reflected as revenues in the income statement and are determined on the basis of amortized value at date of sale for fixed maturity securities, and cost in regard to equity securities; such bases apply to the specific securities sold. Unrealized investment gains and losses, net of any deferred income taxes, are recorded directly as a component of accumulated other comprehensive income in shareholders' equity. At September 30, 2017, the Company and its subsidiaries had no non-income producing fixed maturity securities.

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

	Quarters Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Investment income from:				
Fixed maturity securities	\$72.9	\$73.2	\$220.4	\$222.7
Equity securities	28.7	22.0	81.6	62.7
Short-term investments	1.6	.4	3.6	1.6
Other sources	1.0	.9	3.2	2.9
Gross investment income	104.4	96.7	309.0	290.0
Investment expenses (a)	1.1	.9	3.3	2.9
Net investment income	\$103.3	\$95.7	\$305.7	\$287.0
Realized gains (losses) on:				
Fixed maturity securities:				
Gains	\$2.6	\$3.9	\$17.0	\$11.0
Losses	—	(11.6)	(4.9)	(12.3)
Net	2.5	(7.6)	12.1	(1.2)
Equity securities:				
Gains	39.4	16.5	51.6	84.8
Losses	(6.3)	(1.5)	(6.3)	(25.4)
Net	33.0	14.9	45.3	59.4
Other long-term investments, net	.1	—	—	—
Total realized gains (losses)	35.8	7.2	57.5	58.1
Income taxes (credits)	12.5	2.5	20.1	20.3
Net realized gains (losses)	\$23.2	\$4.7	\$37.3	\$37.7
Changes in unrealized investment gains (losses) on:				
Fixed maturity securities	\$4.4	\$16.9	\$27.4	\$308.7
Less: Deferred income taxes (credits)	1.7	5.9	9.8	107.9
	2.7	11.0	17.6	200.8
Equity securities & other long-term investments	83.8	(16.6)	135.0	229.6
Less: Deferred income taxes (credits)	29.2	(5.8)	47.1	80.3
	54.6	(10.8)	87.8	149.2
Net changes in unrealized investment gains (losses)	\$57.3	\$1	\$105.5	\$350.1

Investment expenses consist of personnel costs and investment management and custody service fees, as well as (a) interest incurred on funds held of \$.1 for both the quarters ended September 30, 2017 and 2016, and \$.4 and \$.3 for the nine months ended September 30, 2017 and 2016, respectively.

4. Losses, Claims and Settlement 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. 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 the risk of 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.

All reserves are therefore based on estimates which are periodically reviewed and evaluated in the light of emerging claim experience and changing circumstances. The resulting changes in estimates are recorded in operations of the periods during which they are made. Return and additional premiums and policyholders' dividends, all of which tend to be affected by development of claims in future years, may offset, in whole or in part, favorable or unfavorable claim developments for certain coverages such as workers' compensation, portions of which are written under loss sensitive programs that provide for such adjustments. The Company believes that its overall reserving practices have been consistently applied over many years, and that its aggregate net 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 Company's accounting policy regarding the establishment of claim reserve estimates is described in Note 1(h) to the consolidated financial statements included in Old Republic's 2016 Annual Report on Form 10-K. The following table shows an analysis of changes in aggregate reserves for the Company's losses, claims and settlement expenses for each of the periods shown.

	Nine Months Ended	
	September 30,	
	2017	2016
Gross reserves at beginning of period	\$9,206.0	\$9,120.1
Less: reinsurance losses recoverable	2,766.1	2,732.5
Net reserves at beginning of period:		
General Insurance	5,249.9	5,053.1
Title Insurance	602.0	580.8
RFIG Run-off	574.0	736.7
Other	13.8	16.9
Sub-total	6,439.8	6,387.6
Incurred claims and claim adjustment expenses:		
Provisions for insured events of the current year:		
General Insurance	1,650.0	1,583.6
Title Insurance	69.5	81.8
RFIG Run-off (a)	277.6	130.0
Other	15.7	16.3
Sub-total	2,012.9	1,811.9
Change in provision for insured events of prior years:		
General Insurance	41.9	(2.4)
Title Insurance	(34.9)	—
RFIG Run-off (a)	(90.4)	(58.0)
Other	(1.6)	(2.2)
Sub-total	(85.0)	(62.7)
Total incurred claims and claim adjustment expenses (a)	1,927.9	1,749.1
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year:		
General Insurance	501.0	483.1
Title Insurance	2.9	3.0
RFIG Run-off (b)	4.8	5.7
Other	9.8	10.7
Sub-total	518.7	502.7
Claims and claim adjustment expenses attributable to insured events of prior years:		
General Insurance	960.2	946.3
Title Insurance	45.5	45.1
RFIG Run-off (b)	144.6	199.7
Other	3.5	5.9
Sub-total	1,153.9	1,197.2
Total payments (b)	1,672.6	1,700.0
Amount of reserves for unpaid claims and claim adjustment expenses at the end of each period, net of reinsurance losses recoverable: (c)		
General Insurance	5,480.6	5,204.8
Title Insurance	588.1	614.4

RFIG Run-off	611.7	603.1
Other	14.4	14.2
Sub-total	6,695.1	6,436.7
Reinsurance losses recoverable	2,999.3	2,810.2
Gross reserves at end of period	\$9,694.4	\$9,247.0

In common with all other insurance coverages, RFIG Run-off mortgage guaranty settled and incurred claim and claim adjustment expenses include only those costs actually or expected to be paid by the Company. Changes in (a) mortgage guaranty aggregate case, IBNR, and loss adjustment expense reserves shown below 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.

The RFIG Run-off mortgage guaranty provision for insured events of the current year was reduced by estimated coverage rescissions and claims denials of \$5.0 and \$6.3 for the year-to-date periods ended September 30, 2017 and 2016, respectively. The provision for insured events of prior years for the periods shown in the table was (increased) reduced by estimated coverage rescissions and claims denials of \$(3.5) and \$(14.8), respectively. Prior year development was also affected in varying degrees by differences between actual claim settlements relative to expected experience, by reinstatement of previously rescinded or denied claims, and by subsequent revisions of assumptions in regards to claim frequency, severity or levels of associated claim settlement costs which result from consideration of underlying trends and expectations.

The RFIG Run-off provision for insured events of the current year is inclusive of the claim expense provisions applicable to final settlements and probable dispositions of all known litigated and other claim costs as described further in Note 6.

(b) Rescissions reduced the Company's paid losses by an estimated \$(10.0) and \$(9.1) for the year-to-date periods ended September 30, 2017 and 2016, respectively.

(c) Net reserves for claims that have been incurred but are not yet reported ("IBNR") carried in each segment were as follows:

	September 30, 2017	September 30, 2016	December 31, 2016
General Insurance	\$ 2,607.7	\$ 2,424.2	\$ 2,431.2
Title Insurance	509.3	538.2	517.5
RFIG Run-off	327.3	204.6	206.3
Other	6.8	5.2	5.4
Total	\$ 3,451.3	\$ 3,172.5	\$ 3,160.5

5. Employee Benefit Plans:

The Company had an active pension plan (the Plan) covering a portion of its work force until December 31, 2013. The Plan is a defined benefit plan pursuant to which pension payments are based primarily on years of service and employee compensation near retirement. The Plan was closed to new participants and benefits were frozen as of December 31, 2013. As a result, eligible employees retained all of the vested rights as of the effective date of the freeze. While additional benefits no longer accrue, the Company's cumulative obligation continues to be subject to further adjustment due to changes in actuarial assumptions such as expected mortality and changes in interest rates. Net periodic pension costs for the quarterly and year-to-date periods ended September 30, 2017 and 2016 were not material to Old Republic's consolidated statements of income.

6. Information About Segments of Business:

Old Republic is engaged in the single business of insurance underwriting and related services. The Company conducts its operations through a number of regulated insurance company subsidiaries organized into three major segments, namely its General Insurance Group (property and liability insurance), Title Insurance Group, and the Republic Financial Indemnity Group ("RFIG") Run-off Business. The results of a small life & accident insurance business are included with those of the holding company parent and minor corporate services operations. Each of the Company's segments underwrites and services only those insurance coverages which may be written by it pursuant to state insurance regulations and corporate charter provisions. Segment results exclude net realized investment gains or losses and other-than-temporary impairments as these are aggregated in the consolidated totals. The contributions of Old Republic's insurance industry segments to consolidated totals are shown in the following table.

	Quarters Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
General Insurance:				
Net premiums earned	\$801.3	\$732.0	\$2,313.7	\$2,192.8
Net investment income and other income	100.4	104.5	313.9	314.2
Total revenues before realized gains or losses	\$901.8	\$836.5	\$2,627.6	\$2,507.1
Income before taxes (credits) and realized investment gains or losses (a)(c)	\$59.7	\$75.9	\$216.2	\$243.1
Income tax expense (credits) on above	\$15.8	\$22.7	\$61.5	\$74.0
Title Insurance:				
Net premiums earned	\$475.4	\$461.6	\$1,325.8	\$1,244.2
Title, escrow and other fees	121.4	126.7	344.6	342.9
Sub-total	596.8	588.4	1,670.5	1,587.2
Net investment income and other income	9.3	9.2	28.4	28.0
Total revenues before realized gains or losses	\$606.1	\$597.7	\$1,699.0	\$1,615.2
Income before taxes (credits) and realized investment gains or losses (a)	\$67.3	\$58.5	\$172.8	\$124.5
Income tax expense (credits) on above	\$23.4	\$20.8	\$59.8	\$44.2
RFIG Run-off Business:				
Net premiums earned	\$30.2	\$40.4	\$98.7	\$131.0
Net investment income and other income	5.4	5.7	16.4	17.5
Total revenues before realized gains or losses	\$35.6	\$46.2	\$115.1	\$148.5
Income before taxes (credits) and realized investment gains or losses (d)	\$(109.7)	\$18.4	\$(88.3)	) \$60.4
Income tax expense (credits) on above	\$(38.5)	) \$6.3	\$(30.9)	) \$20.9
Consolidated Revenues:				
Total revenues of above Company segments	\$1,543.6	\$1,480.5	\$4,441.7	\$4,270.9
Other sources (b)	44.0	32.1	128.1	89.2
Consolidated net realized investment gains (losses)	35.8	7.2	57.5	58.1
Consolidation elimination adjustments	(30.4)	) (23.9)	) (90.5)	) (66.5)
Consolidated revenues	\$1,593.0	\$1,496.0	\$4,536.9	\$4,351.7
Consolidated Income Before Taxes (Credits):				
Total income before income taxes (credits) and realized investment gains or losses of above Company segments	\$17.3	\$152.8	\$300.6	\$428.2
Other sources - net (b)	6.5	3.9	12.4	8.8
Consolidated net realized investment gains (losses)	35.8	7.2	57.5	58.1
Consolidated income before income taxes (credits)	\$59.6	\$164.0	\$370.7	\$495.2
Consolidated Income Tax Expense (Credits):				
Total income tax expense (credits) for above Company segments	\$7	\$49.9	\$90.4	\$139.2
Other sources - net (b)	.1	.5	(.7)) .6

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Income tax expense (credits) on consolidated net realized investment gains (losses)	12.5	2.5	20.1	20.3
Consolidated income tax expense (credits)	\$13.4	\$53.1	\$109.7	\$160.2

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	September 30, 2017	December 31, 2016
Consolidated Assets:		
General Insurance	\$ 16,285.0	\$ 15,305.7
Title Insurance	1,428.8	1,423.0
RFIG Run-off Business	858.9	904.8
Total assets for the above company segments	18,572.8	17,633.6
Other assets (b)	1,579.9	1,301.8
Consolidation elimination adjustments	(405.4	) (343.9)
Consolidated assets	\$ 19,747.4	\$ 18,591.6

(a) Income before taxes (credits) is reported net of interest charges on intercompany financing arrangements with Old Republic's holding company parent for the following segments: General - \$14.3 and \$42.7 compared to \$13.2 and \$38.6 for the quarter and nine months ended September 30, 2017 and 2016, respectively, and Title - \$1.9 and \$6.3 compared to \$2.1 and \$6.3 for the quarter and nine months ended September 30, 2017 and 2016, respectively.

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

(c) General Insurance income before taxes (credits) for the quarter and nine months ended September 30, 2017 include hurricane-related claim costs of \$20.0.

(d) RFIG Run-off income before taxes (credits) for the quarter and nine months ended September 30, 2017 include additional claim and related expense provisions of \$130.0 applicable to the final settlements and probable dispositions of all known litigated and other claim costs incurred by the Company's run-off Financial Indemnity business during the Great Recession years and their aftermath.

The material increases in mortgage guaranty insurance claims and loss payments that began in 2007 gradually depleted Republic Mortgage Insurance Company's ("RMIC") statutory capital base and forced it to discontinue writing new business in 2011. The insurance laws of 16 jurisdictions, including RMIC's and its affiliate company, Republic Mortgage Guaranty Insurance Corporation's ("RMGIC") (formerly Republic Mortgage Insurance Company of North Carolina, "RMICNC") domiciliary state of North Carolina, require a mortgage insurer to maintain a minimum amount of statutory capital relative to risk in force (or a similar measure) in order to continue to write new business. The formulations currently allow for a maximum risk-to-capital ratio of 25 to 1, or alternatively stated, a "minimum policyholder position" ("MPP") of one-twenty-fifth of the total risk in force. The failure to maintain the prescribed minimum capital level in a particular state generally requires a mortgage insurer to immediately stop writing new business until it reestablishes the required level of capital or receives a waiver of the requirement from a state's insurance regulatory authority. RMIC breached the minimum capital requirement during the third quarter of 2010. RMIC had previously requested and, subsequently received waivers or forbearance of the minimum policyholder position requirements from the regulatory authorities in substantially all affected states. Following several brief extensions, the waiver from its domiciliary state of North Carolina expired on August 31, 2011, and RMIC and its sister company, RMGIC, discontinued writing new business in all states and limited themselves to servicing the run-off of their existing business. They were placed under administrative supervision by the North Carolina Department of Insurance ("NCDOI") the following year and ultimately ordered to defer the payment of 40% of all settled claims as a deferred payment obligation ("DPO").

On July 1, 2014, the NCDOI issued a Final Order approving an Amended and Restated Corrective Plan (the "Amended Plan") submitted jointly on April 16, 2014, by RMIC and RMGIC. Under the Amended Plan, RMIC and RMGIC were authorized to pay 100% of their DPOs accrued as of June 30, 2014 and to settle all subsequent valid

claims entirely in cash, without establishing any DPOs. In anticipation of receiving this Final Order, ORI invested \$125.0 of cash and securities in RMIC during June 2014. In mid-July 2014, in furtherance of the Final Order, RMIC and RMGIC processed payments of their accumulated DPO balances of approximately \$657.0 relating to fully settled claims charged to periods extending between January 19, 2012 and June 30, 2014. Both subsidiaries remain under the supervision of the NCDOI as they continue to operate in run-off mode. The approval of the Amended Plan notwithstanding, the NCDOI retains its regulatory supervisory powers to review and amend the terms of the Amended Plan in the future as circumstances may warrant.

7. Commitments and Contingent Liabilities:

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

Reference is made to Item 1 (Legal Proceedings) of Part II of the Company's Quarterly Report on Form 10-Q for the six months ended June 30, 2017 and the information incorporated therein by reference from Note 7 "Commitments and Contingent Liabilities" of the Notes to Consolidated Financial Statements included in Part I of that Report. Set forth below are material developments relating to the legal proceedings described in that Report.

With respect to Old Republic Insurance Company, et al. v. Countrywide Bank FSB, et al., pending in the Circuit Court for Cook County, Illinois, this lawsuit was dismissed with prejudice on October 18, 2017, pursuant to a confidential settlement agreement.

With respect to *White, Hightower, et al. v. PNC Financial Services Group (as successor to National City Bank) et al.*, pending in the United States District Court for the Eastern District of Pennsylvania, the Company recently learned that the court granted Republic Mortgage Insurance Company's motion to dismiss it from the lawsuit on January 12, 2017.

With respect to *Intellectual Ventures II LLC v. Great West Casualty Company* and *Intellectual Ventures II LLC v. BITCO General Insurance Corporation et al.*, each pending in the United States District Court for the Eastern District of Texas, in light of the previously reported outcome of the proceedings before the Patent Trial and Appeal Board of the United States Patent and Trademark Office, the Company has determined that these lawsuits do not represent a material, adverse exposure to the Company or its affiliate companies.

With respect to *Ocwen et al. v. RMIC et al.*, pending in the General Court of Justice, Superior Court Division for Forsyth County, North Carolina, the Company has determined that this lawsuit does not represent a material adverse exposure to the Company or RMIC.

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 remaining aforementioned actions. The Company does not believe it probable that any of these actions will have a material adverse effect on its consolidated financial position, results of operations, or cash flows, though there can be no assurance in those regards. The Company has made an estimate of its potential liability under certain of these matters, all of which seek unquantified damages, attorneys' fees, and expenses. Because of the uncertainty of the ultimate outcomes of the aforementioned disputes, additional costs may arise in future periods beyond the Company's current reserves.

8. Debt:

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

	September 30, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
3.75% Convertible Senior Notes due 2018	\$549.1	\$705.6	\$547.8	\$689.5
4.875% Senior Notes due 2024	396.1	430.7	395.6	417.4
3.875% Senior Notes due 2026	545.0	555.6	544.6	531.9
ESSOP debt with an average yield of 4.50% and 3.98%, respectively	4.2	4.2	8.1	8.1
Other miscellaneous debt with an average yield of 2.4% and 1.9%, respectively	32.4	32.5	32.4	32.5
Total debt	\$1,526.9	\$1,728.7	\$1,528.7	\$1,679.7

On August 26, 2016, the Company completed a public offering of \$550.0 aggregate principal amount of Senior Notes. The notes bear interest at a rate of 3.875% per year and mature on August 26, 2026.

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

The Company completed a public offering of \$550.0 aggregate principal amount of Convertible Senior Notes in early March, 2011. The notes bear interest at a rate of 3.75% per year, mature on March 15, 2018, and are convertible at any time prior to maturity by the holder into 64.3407 shares (subject to periodic adjustment under certain circumstances) of common stock per one thousand dollar note.

The Company's 3.75% Convertible Senior Notes, 4.875% Senior Notes, and 3.875% Senior Notes ("the Notes") contain provisions defining certain events of default, among them a court ordered proceeding due to the insolvency of a Significant Subsidiary. The Notes define Significant Subsidiary in accordance with the paragraph (w) of Rule 1-02 of the SEC's Regulation S-X. The Company's flagship mortgage guaranty insurance carrier, RMIC, qualifies as a Significant Subsidiary for purposes of the Notes. If RMIC were to become statutorily impaired, its insolvency could trigger a receivership proceeding which, in turn could ultimately result in an event of default. If this were to occur, the outstanding principal of the Notes could become immediately due and payable. Management believes the Final Order by the North Carolina Department of Insurance to RMIC has precluded such an event of default from occurring in the foreseeable future. Moreover, RMIC was statutorily solvent at September 30, 2017 and management has every expectation that its solvent state is likely to prevail. RMIC is expected to be an increasingly less significant subsidiary over time as its in force business declines.

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

The following table shows a summary of the carrying value and fair value of financial liabilities segregated among the various input levels described in Note 3 above:

Carrying Fair		Level	Level	Level
Value	Value	1	2	3

Financial Liabilities:

Debt:

September 30, 2017	\$1,526.9	\$1,728.7	\$-\$1,692.0	\$36.7
December 31, 2016	\$1,528.7	\$1,679.7	\$-\$1,639.0	\$40.6

9. Income Taxes:

Tax positions taken or expected to be taken in a tax return by the Company are recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. To the best of management's knowledge, there are no tax uncertainties that are expected to result in significant increases or decreases to unrecognized tax benefits within the next twelve month period. The Company views its income tax exposures as primarily consisting of timing differences whereby the ultimate deductibility of a taxable amount is highly certain but the timing of its deductibility is uncertain. Such differences relate principally to the timing of deductions for loss and premium reserves. As in prior examinations, the Internal Revenue Service ("IRS") could assert that claim reserve deductions were overstated thereby reducing the Company's statutory taxable income in any particular year. The Company believes that it establishes its reserves fairly and consistently at each balance sheet date, and that it would succeed in defending its tax position in these regards. Because of the impact of deferred tax accounting, the possible accelerated payment of tax to the IRS would not necessarily affect the annual effective tax rate. The Company classifies interest and penalties as income tax expense in the consolidated statement of income. The IRS has audited the Company's consolidated Federal income tax returns through year-end 2013.

OLD REPUBLIC INTERNATIONAL CORPORATION
MANAGEMENT ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS
Nine Months Ended September 30, 2017 and 2016
(\$ in Millions, Except Share Data)
OVERVIEW

This management analysis of financial position and results of operations pertains to the consolidated accounts of Old Republic International Corporation ("Old Republic", "ORI", or "the Company"). The Company conducts its operations principally through three major regulatory segments, namely, its General (property and liability), Title, and the RFIG (mortgage guaranty and consumer credit indemnity) Run-off Business. A small life and accident insurance business, accounting for .4% of consolidated operating revenues for the nine months ended September 30, 2017 and .8% 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, many of which require additional financial statement disclosures and provide related application guidance. Recent guidance issued by the FASB is summarized further in Note 1 of the Notes to Consolidated Financial Statements.

As a state regulated financial institution vested with the public interest, however, business of the Company's insurance subsidiaries is managed pursuant to the laws, regulations, and accounting practices of the various states in the U.S. and those of a small number of other jurisdictions outside the U.S. in which they operate. In comparison with GAAP, the statutory accounting practices reflect greater conservatism and comparability among insurers, and are intended to address the primary financial security interests of policyholders and their beneficiaries. Additionally, these practices also affect a significant number of important factors such as product pricing, risk bearing capacity and capital adequacy, the determination of Federal income taxes payable currently among ORI's tax-consolidated entities, and the upstreaming of dividends by insurance subsidiaries to the parent holding company. The major differences between these statutory financial accounting practices and GAAP are summarized in Note 1(a) to the consolidated financial statements included in Old Republic's 2016 Annual Report on Form 10-K.

The insurance business is distinguished from most others in that the prices (premiums) charged for various insurance products are set without certainty of the ultimate benefit and claim costs that will emerge, 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 for sufficiency of 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, and by investments in large capitalization, highly liquid equity securities.

In light of the above factors, the Company's affairs are 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 therefore 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- or preferably ten-year intervals. A ten-year period in particular can likely encompass at least one economic and/or underwriting cycle and thereby provide an appropriate time frame for such cycle to run its course, and for premium rate changes and reserved claim costs to be quantified and emerge in financial results 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 International Corporation reported much lower consolidated operating earnings for the third quarter and nine months ended September 30, 2017. The less favorable results were affected by previously announced pretax operating charges aggregating \$150.0 (or \$97.5 after tax or \$0.33 per diluted share). The charges stem from: (a) estimated General Insurance claim provisions (\$20.0) associated with a current evaluation of exposures from hurricanes Harvey and Irma, and (b) additional claim and related expense provisions (\$130.0) applicable to final settlements and probable dispositions of all known litigated and other claim costs incurred by the Company's run-off Financial Indemnity business during the Great Recession years and their aftermath. The comparisons shown in the following table and related footnotes reflect the impact of these charges on segmented and consolidated results.

Financial Highlights

	Quarters Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Operating revenues:						
General insurance	\$901.8	\$836.5	7.8 %	\$2,627.6	\$2,507.1	4.8 %
Title insurance	606.1	597.7	1.4	1,699.0	1,615.2	5.2
Corporate and other	13.5	8.1	66.3	37.6	22.7	65.5
Subtotal	1,521.5	1,442.4	5.5	4,364.2	4,145.0	5.3
RFIG run-off business	35.6	46.2	(22.9)	115.1	148.5	(22.5)
Total	\$1,557.2	\$1,488.7	4.6 %	\$4,479.4	\$4,293.6	4.3 %
Pretax operating income (loss):						
General insurance	(a) \$59.7	\$75.9	(21.3)%	\$216.2	\$243.1	(11.1)%
Title insurance	67.3	58.5	15.0	172.8	124.5	38.7
Corporate and other	6.5	3.9	67.0	12.4	8.8	40.7
Subtotal	133.5	138.3	(3.5)	401.5	376.6	6.6
RFIG run-off business	(b) (109.7)	18.4	N/M	(88.3)	60.4	(246.1)
Total	23.8	156.7	(84.8)	313.1	437.0	(28.3)
Realized investment gains (losses):						
From sales	35.8	12.2	193.4	57.5	63.1	(8.8)
From impairments	—	(4.9)	100.0	—	(4.9)	100.0
Net realized investment gains (losses)	35.8	7.2	N/M	57.5	58.1	(1.1)
Consolidated pretax income (loss)	59.6	164.0	(63.6)	370.7	495.2	(25.1)
Income taxes (credits)	13.4	53.1	(74.6)	109.7	160.2	(31.5)
Net income (loss)	\$46.1	\$110.9	(58.4)%	\$260.9	\$335.0	(22.1)%
Components of diluted earnings per share:						
Net operating income (loss):						
General insurance	(a) \$0.15	\$0.18	(16.7)%	\$0.52	\$0.57	(8.8)%
Title insurance	0.15	0.13	15.4	0.38	0.27	40.7
Corporate and other	0.03	0.02	50.0	0.08	0.07	14.3
Subtotal	0.33	0.33	—	0.98	0.91	7.7
RFIG run-off business	(b) (0.24)	0.04	N/M	(0.19)	0.13	(246.2)
Total	0.09	0.37	(75.7)	0.79	1.04	(24.0)
Net realized investment gains (losses)	0.08	0.02	N/M	0.12	0.13	(7.7)
Net income (loss)	\$0.17	\$0.39	(56.4)%	\$0.91	\$1.17	(22.2)%
Cash dividends paid per share	\$0.1900	\$0.1875	1.3 %	\$0.5700	\$0.5625	1.3 %

Ending book value per share	\$18.09	\$17.13	5.6	%
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N/M = Not meaningful

- (a) General insurance pretax results for the quarter and nine months ended September 30, 2017 include hurricane-related claim costs of \$20.0 (accounting for a post-tax effect of \$0.05 per diluted share).
- (b) RFIG Run-off pretax results for the quarter and nine months ended September 30, 2017 include additional claim and related expense provisions of \$130.0 (accounting for a post-tax effect of \$0.28 per diluted share), applicable to the final settlements and probable dispositions of all known litigated and other claim costs incurred by the Company's run-off Financial Indemnity business during the Great Recession years and their aftermath.

The preceding table shows both operating and net income to highlight the effects of realized investment gains or losses on period-to-period earnings comparisons. Management uses operating income, a non-GAAP financial measure, to evaluate and better explain operating performance, believing that the measure enhances an understanding of Old Republic's core business results. Operating income, however, does not replace net income determined in accordance with GAAP as a measure of total profitability.

The recognition of realized investment gains or losses can be highly discretionary due to such factors as the timing of individual securities sales, the recording of estimated losses from write-downs of impaired securities, tax-planning considerations, and changes in investment management judgments regarding the direction of securities markets or the future prospects of individual investees or industry sectors. In recent years, asset management operations have to a large extent been oriented toward an enhancement of income from interest and dividends to counter a perniciously low yield environment. The strategy has led to a minimization of non-income producing or low-yielding securities. Proceeds from such securities' sales and maturities, as well as newly investable funds have largely been directed to purchases of higher yielding common shares of American companies with distinguished long-term records of earnings and dividend growth. More recently the Company has allotted greater investable funds to tax exempt issues which generally provide pretax yields lower than those of fully taxable corporate or U.S. Government fixed maturity securities but tend to generate better post-tax yields.

General Insurance Results - The table below shows the major elements effecting this segment's performance for each of the periods reported upon.

	General Insurance Group					
	Quarters Ended			Nine Months Ended		
	September 30,			September 30,		
	2017	2016	Change	2017	2016	Change
Net premiums earned	\$801.3	\$732.0	9.5 %	\$2,313.7	\$2,192.8	5.5 %
Net investment income	80.0	77.2	3.6	238.0	233.6	1.9
Other income	20.4	27.2	(25.1)	75.8	80.6	(5.9)
Operating revenues	901.8	836.5	7.8	2,627.6	2,507.1	4.8
Benefits and claim costs	(a) 608.7	538.3	13.1	1,709.5	1,595.5	7.1
Sales and general expenses	217.4	207.5	4.7	654.5	625.5	4.6
Interest and other costs	15.8	14.6	8.2	47.2	42.8	10.4
Total operating expenses	842.0	760.5	10.7	2,411.3	2,263.9	6.5
Pretax operating income (loss)	(b) \$59.7	\$75.9	(21.3)%	\$216.2	\$243.1	(11.1)%
Benefit and claim ratio	76.0 %	73.5 %	73.9 %	72.8 %		
Expense ratio	24.6	24.6	25.0	24.9		
Composite underwriting ratio	100.6 %	98.1 %	98.9 %	97.7 %		

(a) General insurance pretax results for the quarter and nine months ended September 30, 2017 include hurricane-related claim costs of \$20.0.

In connection with the run-off mortgage guaranty ("MI") and consumer credit indemnity ("CCI") combination, \$106.3 and \$123.0 of pretax operating losses for the third quarter and first nine months of 2017, and \$5.1 and \$26.3 of pretax operating losses for the third quarter and first nine months of 2016, respectively, are retained by certain (b) general insurance companies pursuant to various quota share and stop loss reinsurance agreements. All of these amounts, however, have been reclassified such that 100% of the CCI run-off business is reported in the RFIG run-off segment.

Positive general insurance earned premiums trends for 2017 were unevenly distributed among various insurance coverages and sources of business. Gains continued to be registered most prominently in commercial automobile (trucking), national accounts, home and auto warranty, and in a new underwriting facility established in early 2015. On the other hand, premium growth continued to be constrained by low volume in a large account contractors book of business faced with a particularly competitive market place, and by reduced opportunities in the gas and oil energy services field.

Net investment income rose modestly in both periods of 2017 even though the yield environment continued to exhibit low returns on both fixed maturity and high quality equity securities.

The ratio of claims and related settlement costs to earned premiums rose for 2017 in comparison with the same periods of 2016. Substantially all of the increase stemmed from the aforementioned provision for hurricane-related claims. While current accident year claim ratios reflected moderate year-over-year declines, these were offset by unfavorable developments of prior years' reserves of 1.7 and 1.8 percentage points in this year's third quarter and first nine months, respectively. This year's unfavorable developments were concentrated in the Company's largest insurance coverages of workers' compensation, commercial automobile (trucking), and general liability. 2016 claim and related settlement costs were reasonably stable for the quarterly and nine month periods with such costs and related ratios largely unaffected by developments of prior years' reserves. Expense ratios for both years' interim periods were within range of the expected long-term operating objective of 23 to 25 percent.

Quarterly and even annual claim provisions and the trends they display may not be particularly meaningful in Old Republic's long-term liability insurance mix of business. Absent significant economic and insurance industry dislocations in the foreseeable future, it is currently anticipated that reported claim ratios could range within targeted averages in the high 60 percent to low 70 percent levels. The current mix of business should result in expense ratios within the aforementioned range.

Title Insurance Results - Pretax operating income for this year's interim periods improved as both revenues and claim costs extended the favorable trends of recent years.

	Title Insurance Group					
	Quarters Ended			Nine Months Ended		
	September 30,			September 30,		
	2017	2016	Change	2017	2016	Change
Net premiums and fees earned	\$596.8	\$588.4	1.4 %	\$1,670.5	\$1,587.2	5.3 %
Net investment income	9.1	8.9	2.9	27.9	27.0	3.5
Other income	0.1	0.2	(63.4)	0.5	1.0	(49.4)
Operating revenues	606.1	597.7	1.4	1,699.0	1,615.2	5.2
Claim costs	12.3	30.5	(59.5)	34.6	81.8	(57.7)
Sales and general expenses	524.9	506.8	3.6	1,485.6	1,403.0	5.9
Interest and other costs	1.5	1.7	(11.3)	5.8	5.7	0.9
Total operating expenses	538.8	539.2	(0.1)	1,526.1	1,490.6	2.4
Pretax operating income (loss)	\$67.3	\$58.5	15.0 %	\$172.8	\$124.5	38.7 %
Claim ratio	2.1 %	5.2 %	2.1 %	5.2 %		
Expense ratio	87.9	86.1	88.9	88.3		
Composite underwriting ratio	90.0%	91.3%	91.0%	93.5%		

The continuation of a generally positive mortgage rate environment and reasonably strong housing and commercial property markets were major factors in the year-over-year gain in premiums and fees for 2017.

On the expense side of the ledger, claim costs were lower in the face of declining claims activity since the Great Recession years. Favorable developments of reserves established in prior years further reduced the claim ratio by 2.1 percentage points in this year's third quarter and first nine months. The ratio for last year's related periods was unaffected by such developments. The expense ratio for the periods reported upon remained generally aligned with premiums and fees levels.

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RFIG Run-off Business Results - As summarized below, overall pretax operating results for this year's interim periods were mostly effected by additional claim and related expense provisions (\$130.0) applicable to final settlements and probable dispositions of all known litigated and other claim costs incurred during the Great Recession years and their aftermath.

	RFIG Run-off Business					
	Quarters Ended			Nine Months Ended		
	September 30, 2017	2016	Change	September 30, 2017	2016	Change
A. Mortgage Insurance (MI)						
Net premiums earned	\$25.6	\$36.7	(30.2)%	\$86.1	\$119.8	(28.1)%
Net investment income	5.1	5.4	(7.2)	15.4	16.7	(7.8)
Claim costs	(a) 29.9	14.1	111.0	51.2	34.1	50.0
Pretax operating income (loss)	\$(3.0)	\$23.8	(112.7)%	\$35.7	\$87.9	(59.3)%
Claim ratio	(a) 116.8%	38.6%	59.5%	28.5%		
Expense ratio	14.9	11.4	16.9	12.1		
Composite underwriting ratio	131.7%	50.0%	76.4%	40.6%		
B. Consumer Credit Indemnity (CCI) (b)						
Net premiums earned	\$4.5	\$3.7	22.0%	\$12.5	\$11.2	12.2%
Net investment income	0.3	0.2	20.9%	1.0	0.8	23.6%
Benefits and claim costs	(a) 111.1	8.9	N/M	135.9	37.8	N/M
Pretax operating income (loss)	\$(106.7)	\$(5.4)	N/M	\$(124.1)	\$(27.4)	N/M
Claim ratio	(a) N/M	238.1%	N/M	337.3%		
Expense ratio	N/M	14.5	N/M	14.7		
Composite underwriting ratio	N/M	252.6%	N/M	352.0%		
C. Total MI and CCI run-off business:						
Net premiums earned	\$30.2	\$40.4	(25.3)%	\$98.7	\$131.0	(24.7)%
Net investment income	5.4	5.7	(5.8)%	16.4	17.5	(6.3)
Benefits and claim costs	(a) 141.0	23.1	N/M	187.1	71.9	160.0
Pretax operating income (loss)	\$(109.7)	\$18.4	N/M	\$(88.3)	\$60.4	(246.1)%
Claim ratio	(a) N/M	57.2%	189.6%	54.9%		
Expense ratio	14.5%	11.7	16.6	12.3		
Composite underwriting ratio	N/M	68.9%	206.2%	67.2%		

RFIG run-off pretax results for the quarter and nine months ended September 30, 2017 include additional claim and related expense provisions of \$130.0 applicable to the final settlements and probable dispositions of all known (a) litigated and other claim costs incurred by the Company's run-off Financial Indemnity business during the Great Recession years and their aftermath. Of the total charge, \$23.0 related to mortgage guaranty claim costs, and \$107.0 was attributable to additional claim provisions in the consumer credit indemnity run-off business.

In connection with the run-off mortgage guaranty ("MI") and consumer credit indemnity ("CCI") combination, \$106.3 and \$123.0 of pretax operating losses for the third quarter and first nine months of 2017, and \$5.1 and \$26.3 (b) of pretax operating losses for the third quarter and first nine months of 2016, respectively, are retained by certain general insurance companies pursuant to various quota share and stop loss reinsurance agreements. All of these amounts, however, have been reclassified such that 100% of the CCI run-off business is reported in the RFIG run-off segment.

Consistent with a run-off operating mode, further declines of earned premiums were posted by the combined MI and CCI lines. MI investment income was also lower as reduced premium volume and on-going claim payments effected downward pressures on the invested asset base.

The declining premium base led to a higher claim ratio for 2017 though reported current accident year claim costs, absent the charges referred to below for MI, were relatively level in comparison to the related periods of 2016. Reductions in the provision for current year losses emanating from a continuing drop in newly reported delinquencies as well as improving cure rates resulted in favorable developments of previously established claim reserves. The developments led to reductions of the claim ratios by 60.2 and 39.8 percentage points in the third quarter and first nine months of 2017, respectively. In the same respective periods of 2016, the claim ratio reductions amounted to 52.2 and 44.0 percentage points. As already indicated, however, MI claim costs for 2017's interim periods rose most significantly due to the \$23.0 additional claim provision which added 89.8 and 26.7 percentage points to the claim ratios for the third quarter and first nine months of 2017.

MI operating costs and the related expense ratios were negatively impacted in 2017's first nine months by charges related to the partial termination of a facility lease.

2017 year-over-year operating performance comparisons for the CCI portion of the Run-off business were most significantly effected by the additional \$107.0 claim provision. Excluding this charge, CCI's pretax operating results would have reflected a minor gain in this year's third quarter and a smaller loss of \$17.1 for the first nine months of 2017.

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

	Corporate and Other Operations			
	Quarters Ended September 30, 2017		Nine Months Ended September 30, 2016	
Net premiums earned	\$5.0	\$4.4	\$14.4	\$14.0
Net investment income	8.6	3.7	23.2	8.8
Other income	—	—	—	(0.1)
Operating revenues	13.5	8.1	37.6	22.7
Benefits and claim costs	4.2	3.1	13.5	12.7
Insurance expenses	1.3	2.3	6.9	6.6
Corporate, interest, and other expenses-net	1.5	(1.2)	4.7	(5.6)
Total operating expenses	7.0	4.2	25.1	13.8
Pretax operating income (loss)	\$6.5	\$3.9	\$12.4	\$8.8

Consolidated Results - The above summarized operating results of Old Republic's segmented business are reflected in the following consolidation.

	ORI Consolidated					
	Quarters Ended September 30, 2017			Nine Months Ended September 30, 2016		
Net premiums and fees earned	\$1,433.4	\$1,365.4	5.0 %	\$4,097.3	\$3,925.1	4.4 %
Net investment income	103.3	95.7	7.9	305.7	287.0	6.5
Other income	20.4	27.5	(25.6)	76.3	81.4	(6.3)
Operating revenues	1,557.2	1,488.7	4.6	4,479.4	4,293.6	4.3
Benefits and claim costs	766.4	595.2	28.8	1,944.7	1,762.1	10.4
Sales and general expenses	751.1	724.0	3.7	2,173.1	2,060.3	5.5
Interest and other costs	15.8	12.6	25.1	48.3	34.0	42.0
Total operating expenses	1,533.3	1,331.9	15.1	4,166.2	3,856.5	8.0
Pretax operating income (loss)	23.8	156.7	(84.8)	313.1	437.0	(28.3)
Income taxes (credits)	0.9	50.5	(98.1)	89.6	139.8	(35.9)
Net operating income (loss)	22.8	106.2	(78.4)	223.5	297.2	(24.8)
Realized investment gains (losses)	35.8	7.2	N/M	57.5	58.1	(1.1)
Income taxes (credits) on realized investment gains (losses)	12.5	2.5	N/M	20.1	20.3	(1.1)
Net realized investment gains (losses)	23.2					