

OLD REPUBLIC INTERNATIONAL CORP

Form 10-Q

November 02, 2018

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, 2018 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:

x

Class	Shares Outstanding September 30, 2018
Common Stock / \$1 par value	302,643,075

There are 54 pages in this report

OLD REPUBLIC INTERNATIONAL CORPORATION

Report on Form 10-Q / September 30, 2018

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

	(Unaudited)	
	September 30, 2018	December 31, 2017
Assets		
Investments:		
Available for sale:		
Fixed maturity securities (at fair value) (amortized cost: \$8,187.5 and \$8,162.2)	\$ 8,070.7	\$ 8,282.3
Short-term investments (at fair value which approximates cost)	580.7	670.1
Total	8,651.4	8,952.4
Held to maturity:		
Fixed maturity securities (at amortized cost) (fair value: \$1,022.4 and \$1,069.2)	1,050.5	1,067.4
Equity securities (at fair value) (cost: \$2,820.9 and \$2,629.9)	3,474.3	3,265.5
Other investments	34.6	32.5
Total investments	13,211.0	13,318.0
Other Assets:		
Cash	115.2	125.9
Securities and indebtedness of related parties	19.1	12.8
Accrued investment income	93.9	92.4
Accounts and notes receivable	1,643.0	1,469.7
Prepaid federal income taxes	114.3	114.3
Reinsurance balances and funds held	169.0	141.6
Reinsurance recoverable: Paid losses	58.9	60.5
Policy and claim reserves	3,578.3	3,311.3
Deferred policy acquisition costs	316.6	297.8
Sundry assets	482.6	458.8
Total Other Assets	6,591.3	6,085.5
Total Assets	\$ 19,802.3	\$ 19,403.5
Liabilities, Preferred Stock, and Common Shareholders' Equity		
Liabilities:		
Losses, claims, and settlement expenses	\$ 9,482.9	\$ 9,237.6
Unearned premiums	2,245.8	1,971.5
Other policyholders' benefits and funds	204.6	204.7
Total policy liabilities and accruals	11,933.4	11,413.9
Commissions, expenses, fees, and taxes	510.8	547.7
Reinsurance balances and funds	703.2	566.9
Federal income tax payable: Current	3.7	6.5
Deferred	54.7	100.5
Debt	981.1	1,448.7
Sundry liabilities	303.9	585.8
Commitments and contingent liabilities		
Total Liabilities	14,491.1	14,670.2
Preferred Stock (1)	—	—
Common Shareholders' Equity:		
Common stock (1)	302.6	269.2
Additional paid-in capital	1,275.6	815.2
Retained earnings	4,014.6	3,206.9

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Accumulated other comprehensive income (loss)	(217.7) 474.2
Unallocated ESSOP shares (at cost)	(64.0) (32.4)
Total Common Shareholders' Equity	5,311.2	4,733.3
Total Liabilities, Preferred Stock and Common Shareholders' Equity	\$ 19,802.3	\$ 19,403.5

(1) At September 30, 2018 and December 31, 2017, 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 302,643,075 and 269,238,727 were issued as of September 30, 2018 and December 31, 2017, respectively. At September 30, 2018 and December 31, 2017, 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.

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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,	
	2018	2017	2018	2017
Revenues:				
Net premiums earned	\$1,388.6	\$ 1,312.0	\$3,914.4	\$ 3,752.6
Title, escrow, and other fees	116.2	121.4	341.0	344.6
Total premiums and fees	1,504.8	1,433.4	4,255.5	4,097.3
Net investment income	108.7	103.3	321.5	305.7
Other income	30.4	20.4	91.1	76.3
Total operating revenues	1,644.0	1,557.2	4,668.2	4,479.4
Investment gains (losses):				
Realized from actual transactions	7.3	35.8	54.8	57.5
Unrealized from changes in fair value of equity securities	128.4	—	17.7	—
Unrealized from impairments	—	—	—	—
Total realized and unrealized investment gains (losses)	135.7	35.8	72.6	57.5
Total revenues	1,779.7	1,593.0	4,740.9	4,536.9
Benefits, Claims and Expenses:				
Benefits, claims and settlement expenses	615.1	759.0	1,806.3	1,927.1
Dividends to policyholders	4.2	7.3	14.4	17.5
Underwriting, acquisition, and other expenses	815.2	751.1	2,310.0	2,173.1
Interest and other charges	9.9	15.8	34.3	48.3
Total expenses	1,444.6	1,533.3	4,165.2	4,166.2
Income (loss) before income taxes (credits)	335.1	59.6	575.7	370.7
Income Taxes (Credits):				
Current	34.2	52.9	95.7	138.4
Deferred	25.6	(39.4)	2.9	(28.6)
Total	59.8	13.4	98.6	109.7
Net Income	\$275.2	\$ 46.1	\$477.0	\$ 260.9
Net Income Per Share:				
Basic	\$.92	\$.18	\$1.63	\$ 1.00
Diluted	\$.92	\$.17	\$1.59	\$.91
Average shares outstanding:				
Basic	299,006,345	251,380,896	292,565,008	281,181,220
Diluted	300,374,009	248,529,626	301,125,098	298,559,757
Dividends Per Common Share:				
Cash	\$.1950	\$.1900	\$.5850	\$.5700

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, 2018	2017	September 30, 2018	2017
Net Income As Reported	\$275.2	\$46.1	\$477.0	\$260.9
Other comprehensive income (loss):				
Unrealized gains (losses) on securities not included in the statement of income:				
Unrealized gains (losses) on securities before reclassifications	(24.6)	124.1	(236.3)	220.0
Amounts reclassified as investment (gains) losses from actual transactions in the statements of income	1.2	(35.8)	(.4)	(57.5)
Pretax unrealized gains (losses) on securities	(23.4)	88.3	(236.8)	162.5
Deferred income taxes (credits)	(4.9)	31.0	(49.8)	56.9
Net unrealized gains (losses) on securities, net of tax	(18.4)	57.3	(186.9)	105.5
Defined benefit pension plans:				
Net pension adjustment before reclassifications	—	—	—	—
Amounts reclassified as underwriting, acquisition, and other expenses in the statements of income	.8	.1	2.4	.3
Net adjustment related to defined benefit pension plans	.8	.1	2.4	.3
Deferred income taxes (credits)	.1	—	.5	.1
Net adjustment related to defined benefit pension plans, net of tax	.6	—	1.9	.2
Foreign currency translation and other adjustments	2.6	8.6	(4.7)	11.9
Net adjustments	(15.1)	66.1	(189.7)	117.7
Comprehensive Income (Loss)	\$260.0	\$112.2	\$287.3	\$378.7

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,	
	2018	2017
Cash flows from operating activities:		
Net income	\$477.0	\$260.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred policy acquisition costs	(18.7)	(27.7)
Premiums and other receivables	(173.2)	(199.4)
Unpaid claims and related items	148.5	254.7
Unearned premiums and other policyholders' liabilities	103.8	164.2
Income taxes	.8	11.9
Prepaid federal income taxes	—	(31.8)
Reinsurance balances and funds	110.4	75.0
Realized investment (gains) losses from actual transactions	(54.8)	(57.5)
Unrealized investment (gains) losses from changes in fair value of equity securities	(17.7)	—
Accounts payable, accrued expenses and other	21.0	71.8
Total	597.1	522.1
Cash flows from investing activities:		
Fixed maturity securities:		
Available for sale:		
Maturities and early calls	758.9	632.1
Sales	222.6	381.9
Sales of:		
Equity securities	294.5	233.5
Other - net	13.3	27.1
Purchases of:		
Fixed maturity securities:		
Available for sale	(1,027.6)	(1,046.7)
Held to maturity	—	(114.5)
Equity securities	(432.0)	(295.6)
Other - net	(40.4)	(44.3)
Net decrease (increase) in short-term investments	88.7	(163.4)
Other - net	(6.8)	—
Total	(128.7)	(389.9)
Cash flows from financing activities:		
Issuance of common shares	12.2	14.0
Redemption of debentures and notes	(4.7)	(3.9)
Purchase of unallocated common shares by ESSOP	(37.4)	—
Dividends on common shares (Including a special dividend paid in January 2018)	(440.5)	(148.3)
Other - net	(8.6)	(.3)
Total	(479.1)	(138.6)

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Increase (decrease) in cash	(10.7)	(6.4)
Cash, beginning of period	125.9	145.7
Cash, end of period	\$115.2	\$139.2
Supplemental cash flow information:		
Cash paid (received) during the period for: Interest	\$50.4	\$62.2
Income taxes	\$97.9	\$97.9

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 2017 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 and are further discussed below.

- a) Effective January 1, 2018, the Company adopted FASB guidance on the recognition and measurement of financial instruments. The impact of the Company's adoption of this pronouncement and the related interim disclosure requirements have been included in the pertinent note herein.
- b) In addition, effective January 1, 2018, the Company adopted the FASB's comprehensive revenue recognition standard which applies to contracts with customers, except for those that fall within the scope of other standards, such as insurance contracts. The Company's adoption of this standard did not have an effect on its insurance contract revenues, and based on its evaluation of certain less significant revenue streams generated from contracts with customers, does not have a material impact on the consolidated financial statements taken as a whole.
- c) Effective January 1, 2017, the Company adopted new FASB guidance on accounting for share-based payment awards without material impact on the consolidated financial statements.
- d) 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. The Company's prospective adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.
- e) 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 (1) certain financial instruments including reinsurance recoverables, (2) held to maturity securities, (3) accounts and notes receivable and (4) modification of the impairment model for available for sale fixed maturity securities. The Company is currently evaluating the 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 interim periods' results and financial position have been recorded. 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, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Numerator:				
Net income	\$ 275.2	\$ 46.1	\$ 477.0	\$ 260.9
Numerator for basic earnings per share - income available to common stockholders	275.2	46.1	477.0	260.9
Adjustment for interest expense incurred on assumed conversion of convertible notes	—	3.6	3.1	10.9
Numerator for diluted earnings per share - income available to common stockholders after assumed conversion of convertible notes	\$ 275.2	\$ 49.8	\$ 480.1	\$ 271.8
Denominator:				
Denominator for basic earnings per share - weighted-average shares (a)	299,006,208	245,380,896	292,565,108	208,181,220
Effect of dilutive securities - stock based compensation awards	1,367,659	9,349,148	1,381,914	4,603,514
Effect of dilutive securities - convertible notes	—	35,799,582	7,178,165	8,775,023
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversion of convertible notes (a)	300,374,008	290,529,626	301,125,198	211,559,757
Earnings per share: Basic	\$.92	\$.18	\$1.63	\$ 1.00
Diluted	\$.92	\$.17	\$1.59	\$.91
Anti-dilutive common stock equivalents excluded from earnings per share computations:				
Stock based compensation awards	—	1,403,500	—	1,403,500
Total	—	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. However, such shares are issued and outstanding and have the same voting and other rights applicable to all common shares.

3. Investments:

The Company may classify its fixed maturity 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, 2018 and December 31, 2017, the majority of the Company's fixed maturity invested assets were classified as "available for sale."

Fixed maturity 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. Fixed maturity securities classified as "held to maturity" are carried at amortized cost. Effective January 1, 2018, preferred and common stocks (equity securities) are included at fair value with changes in such values reflected as unrealized investment gains (losses) in the consolidated statements of income. Fair values for fixed maturity securities and equity securities are based on quoted market prices or estimates using values obtained from recognized independent pricing services.

The Company reviews the status and fair value changes of each of its fixed maturity 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 audited financial statements, 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. 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 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 directly in shareholders' equity. The Company recognized no OTTI adjustments for the quarters and nine months ended September 30, 2018 and 2017.

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, 2018:				
Available for sale:				
U.S. & Canadian Governments	\$ 1,472.9	\$.6	\$ 34.8	\$ 1,438.6
Corporate	6,714.6	34.8	117.4	6,632.0
	\$ 8,187.5	\$ 35.5	\$ 152.3	\$ 8,070.7
Held to maturity:				
Tax-exempt	\$ 1,050.5	\$.3	\$ 28.4	\$ 1,022.4
December 31, 2017:				
Available for sale:				
U.S. & Canadian Governments	\$ 1,554.3	\$ 6.5	\$ 8.7	\$ 1,552.2
Corporate	6,607.8	140.8	18.6	6,730.0
	\$ 8,162.2	\$ 147.4	\$ 27.3	\$ 8,282.3
Held to maturity:				
Tax-exempt	\$ 1,067.4	\$ 10.0	\$ 8.3	\$ 1,069.2

	Amortized Cost	Estimated Fair Value
Fixed Maturity Securities Stratified by Contractual Maturity at September 30, 2018:		
Available for sale:		
Due in one year or less	\$ 606.4	\$ 607.2
Due after one year through five years	4,563.1	4,517.1
Due after five years through ten years	2,931.5	2,856.4
Due after ten years	86.5	89.9
	\$ 8,187.5	\$ 8,070.7
Held to maturity:		
Due in one year or less	\$ —	\$ —
Due after one year through five years	155.9	152.9
Due after five years through ten years	891.4	866.4
Due after ten years	3.1	3.0
	\$ 1,050.5	\$ 1,022.4

The following tables reflect 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 fixed maturity securities have been in an unrealized loss position. Fair value and issuer's cost comparisons follow:

	12 Months or Less		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2018:						
Fixed Maturity Securities:						
Available for sale:						
U.S. & Canadian Governments	\$943.4	\$ 22.6	\$386.5	\$ 12.2	\$1,329.9	\$ 34.8
Corporate	3,821.9	84.7	778.1	32.6	4,600.1	117.4
	\$4,765.3	\$ 107.4	\$1,164.7	\$ 44.9	\$5,930.1	\$ 152.3
Number of available for sale securities in unrealized loss position						
		898		265		1,163
Held to maturity:						
Tax-exempt	\$576.4	\$ 9.9	\$401.3	\$ 18.4	\$977.8	\$ 28.4
Number of held to maturity securities in unrealized loss position						
		204		144		348
December 31, 2017:						
Fixed Maturity Securities:						
Available for sale:						
U.S. & Canadian Governments	\$1,080.9	\$ 8.6	\$29.5	\$ —	\$1,110.5	\$ 8.7
Corporate	1,660.9	15.0	145.9	3.6	1,806.9	18.6
	\$2,741.9	\$ 23.6	\$175.5	\$ 3.7	\$2,917.4	\$ 27.3
Number of available for sale securities in unrealized loss position						
		526		56		582
Held to maturity:						
Tax-exempt	\$321.9	\$ 4.8	\$134.7	\$ 3.4	\$456.6	\$ 8.3
Number of held to maturity securities in unrealized loss position						
		112		48		160

In the above tables the unrealized losses on fixed income securities are primarily deemed to reflect changes in the interest rate environment. As part of its assessment of other-than-temporary impairments, the Company considers its intent to continue to hold, and the likelihood that it will not be required to sell investment securities in an unrealized loss position until cost recovery, principally on the basis of its asset and liability maturity matching procedures.

A summary of the Company's equity securities holdings follows:

	Gross	Gross	Estimated
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	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity Securities:				
September 30, 2018	\$2,820.9	\$ 695.7	\$ 42.3	\$ 3,474.3
December 31, 2017	\$2,629.9	\$ 658.8	\$ 23.2	\$ 3,265.5

At December 31, 2017, the Company held 9 available for sale equity securities that had been in an unrealized loss position for 12 months or less. Effective January 1, 2018, the Company adopted a new accounting standard which requires the recognition of changes in fair value of equity securities in net income. The effect is shown in the accompanying consolidated financial statements. The cumulative-effect adjustment resulting from the adoption of the new standard was to reclassify \$502.1 from accumulated other comprehensive income to retained earnings; total shareholders' equity remained unchanged. During the quarter and first nine months of 2018, the Company recognized unrealized investment gains (losses) of \$128.4 and \$17.7 emanating from changes in the fair value of equity securities in the consolidated

statements of income. Changes in the fair value of equity securities still held at September 30, 2018 were \$137.1 and \$67.4 for the quarter and first nine months of 2018, respectively.

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 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, 2018 and December 31, 2017.

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

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
As of September 30, 2018:				
Available for sale:				
Fixed maturity securities:				
U.S. & Canadian Governments	\$642.6	\$796.0	\$—	\$1,438.6
Corporate	—	6,621.5	10.5	6,632.0
Short-term investments	580.7	—	—	580.7
Held to maturity:				
Fixed maturity securities:				
Tax-exempt	—	1,022.4	—	1,022.4
Equity securities	\$3,472.6	\$—	\$1.6	\$3,474.3

As of December 31, 2017:

Available for sale:				
Fixed maturity securities:				
U.S. & Canadian Governments	\$761.4	\$790.8	\$—	\$1,552.2

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Corporate	—	6,719.5	10.5	6,730.0
Short-term investments	670.1	—	—	670.1
Held to maturity:				
Fixed maturity securities:				
Tax-exempt	—	1,069.2	—	1,069.2
Equity securities	\$3,264.4	\$—	\$ 1.1	\$3,265.5

There were no transfers between Levels 1, 2 or 3 during the nine months ended September 30, 2018.

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 cost at date of sale for fixed maturity securities, and cost in regard to equity securities; such bases apply to the specific securities sold. Effective January 1, 2018, as above noted, unrealized gains and (losses) from changes in fair value of equity securities are recorded as investment gains (losses) in the income statement. Unrealized investment gains (losses) on fixed maturity securities, net of any

deferred income taxes, are recorded directly as a component of accumulated other comprehensive income in shareholders' equity. At September 30, 2018, the Company and its subsidiaries had no non-income producing fixed maturity or equity 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, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Investment income from:				
Fixed maturity securities	\$74.4	\$72.9	\$224.2	\$220.4
Equity securities	31.5	28.7	91.3	81.6
Short-term investments	2.7	1.6	6.9	3.6
Other sources	1.4	1.0	3.6	3.2
Gross investment income	110.2	104.4	326.2	309.0
Investment expenses (a)	1.4	1.1	4.6	3.3
Net investment income	\$108.7	\$103.3	\$321.5	\$305.7
Investment gains (losses):				
From actual transactions:				
Fixed maturity securities:				
Gains	\$.5	\$ 2.6	\$ 1.6	\$ 17.0
Losses	(1.7)	—	(2.6)	(4.9)
Net	(1.2)	2.5	(1.0)	12.1
Equity securities:				
Gains	8.6	39.4	61.5	51.6
Losses	—	(6.3)	(7.1)	(6.3)
Net	8.6	33.0	54.4	45.3
Other long-term investments, net	—	.1	1.5	—
Total from actual transactions	7.3	35.8	54.8	57.5
From unrealized changes in fair value of equity securities	128.4	—	17.7	—
From impairments	—	—	—	—
Total realized and unrealized investment gains (losses)	135.7	35.8	72.6	57.5
Current and deferred income taxes (credits)	28.5	12.5	15.2	20.1
Post tax realized and unrealized investment gains (losses)	\$107.2	\$23.2	\$57.4	\$37.3
Changes in unrealized investment gains (losses) reflected directly in shareholders' equity on:				
Fixed maturity securities	\$(23.4)	\$4.4	\$(236.4)	\$27.4
Less: Deferred income taxes (credits)	(5.0)	1.7	(49.8)	9.8
	(18.4)	2.7	(186.6)	17.6
Equity securities & other long-term investments	—	83.8	(.3)	135.0
Less: Deferred income taxes (credits)	—	29.2	—	47.1
	—	54.6	(.2)	87.8
Net changes in unrealized investment gains (losses)	\$(18.4)	\$57.3	\$(186.9)	\$105.5

(a) Investment expenses largely consist of personnel costs and investment management and custody service fees.

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 incurrence 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 2017 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.

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Summary of changes in aggregate reserves for claims and related costs:

	Nine Months Ended	
	September 30,	
	2018	2017
Gross reserves at beginning of period	\$9,237.6	\$9,206.0
Less: reinsurance losses recoverable	2,921.1	2,766.1
Net reserves at beginning of period:		
General Insurance	5,471.5	5,249.9
Title Insurance	559.7	602.0
RFIG Run-off	271.7	574.0
Other	13.5	13.8
Sub-total	6,316.4	6,439.8
Incurred claims and claim adjustment expenses:		
Provisions for insured events of the current year:		
General Insurance	1,717.4	1,650.0
Title Insurance	72.0	69.5
RFIG Run-off (a)	43.7	277.6
Other	15.7	15.7
Sub-total	1,849.0	2,012.9
Change in provision for insured events of prior years:		
General Insurance	7.3	41.9
Title Insurance	(27.0)	(34.9)
RFIG Run-off (a)	(19.8)	(90.4)
Other	(3.2)	(1.6)
Sub-total	(42.7)	(85.0)
Total incurred claims and claim adjustment expenses (a)	1,806.2	1,927.9
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year:		
General Insurance	543.1	501.0
Title Insurance	5.7	2.9
RFIG Run-off (b)	1.6	4.8
Other	10.6	9.8
Sub-total	561.1	518.7
Claims and claim adjustment expenses attributable to insured events of prior years:		
General Insurance	959.4	960.2
Title Insurance	44.9	45.5
RFIG Run-off (b)	87.3	144.6
Other	4.7	3.5
Sub-total	1,096.4	1,153.9
Total payments (b)	1,657.6	1,672.6
Amount of reserves for unpaid claims and claim adjustment expenses at the end of each period, net of reinsurance losses recoverable: (c)		
General Insurance	5,693.8	5,480.6
Title Insurance	554.0	588.1
RFIG Run-off	206.5	611.7
Other	10.6	14.4
Sub-total	6,465.0	6,695.1

Reinsurance losses recoverable	3,017.8	2,999.3
Gross reserves at end of period	\$9,482.9	\$9,694.4

In common with all other insurance coverages, RFIG Run-off mortgage guaranty settled and incurred claim and (a) claim adjustment expenses include only those costs actually or expected to be paid by the Company. Changes in 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 \$.7 and \$5.0 for the year-to-date periods ended September 30, 2018 and 2017, 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 \$(12.6) and \$(3.5), 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.

(b) Rescissions reduced the Company's paid losses by an estimated \$3.5 and \$10.0 for the year-to-date periods ended September 30, 2018 and 2017, 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, 2018	September 30, 2017	December 31, 2017
General Insurance	\$ 2,696.3	\$ 2,607.7	\$ 2,585.9
Title Insurance	466.1	509.3	479.3
RFIG Run-off	29.6	327.3	30.5
Other	4.5	6.8	4.7
Total	\$ 3,196.6	\$ 3,451.3	\$ 3,100.6

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, 2018 and 2017 were not material to Old Republic's consolidated statements of income.

During the second quarter of 2018, the Employee Savings and Stock Ownership Plan (ESSOP) purchased 1.7 million shares of Old Republic common stock for \$37.4. The purchases were financed by loans to the ESSOP from participating subsidiaries.

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 its 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 investment gains or losses and

other-than-temporary impairments as these are aggregated in the consolidated totals. The contributions of Old Republic's insurance industry segments to consolidated totals are shown in the following table.

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Segmented and Consolidated Results:

	Quarters Ended		Nine Months Ended	
	September 30, 2018	2017	September 30, 2018	2017
General Insurance:				
Net premiums earned	\$841.5	\$801.3	\$2,441.3	\$2,313.7
Net investment income and other income	116.3	100.4	344.4	313.9
Total revenues excluding investment gains (losses)	\$957.8	\$901.8	\$2,785.7	\$2,627.6
Segment pretax operating income (loss) (a)(c)	\$105.1	\$59.7	\$279.1	\$216.2
Income tax expense (credits) on above	\$18.0	\$15.8	\$46.7	\$61.5
Title Insurance:				
Net premiums earned	\$524.5	\$475.4	\$1,402.5	\$1,325.8
Title, escrow and other fees	116.2	121.4	341.0	344.6
Sub-total	640.7	596.8	1,743.6	1,670.5
Net investment income and other income	10.0	9.3	29.5	28.4
Total revenues excluding investment gains (losses)	\$650.8	\$606.1	\$1,773.1	\$1,699.0
Segment pretax operating income (loss) (a)	\$67.7	\$67.3	\$158.2	\$172.8
Income tax expense (credits) on above	\$14.0	\$23.4	\$33.3	\$59.8
RFIG Run-off Business:				
Net premiums earned	\$18.2	\$30.2	\$59.2	\$98.7
Net investment income and other income	4.6	5.4	15.4	16.4
Total revenues excluding investment gains (losses)	\$22.8	\$35.6	\$74.7	\$115.1
Segment pretax operating income (loss) (d)	\$13.3	\$(109.7)	\$38.0	\$(88.3)
Income tax expense (credits) on above	\$2.6	\$(38.5)	\$7.7	\$(30.9)
Consolidated Revenues:				
Total revenues of above Company segments	\$1,631.5	\$1,543.6	\$4,633.6	\$4,441.7
Other sources (b)	45.7	44.0	127.4	128.1
Consolidated investment gains (losses):				
Realized from actual transactions	7.3	35.8	54.8	57.5
Unrealized from changes in fair value of equity securities	128.4	—	17.7	—
Total realized and unrealized investment gains (losses)	135.7	35.8	72.6	57.5
Consolidation elimination adjustments	(33.2)	(30.4)	(92.8)	(90.5)
Consolidated revenues	\$1,779.7	\$1,593.0	\$4,740.9	\$4,536.9
Consolidated Income (Loss) Before Income Taxes (Credits):				
Total segment pretax operating income (loss) of above Company segments	\$186.1	\$17.3	\$475.4	\$300.6
Other sources - net (b)	13.1	6.5	27.6	12.4
Consolidated investment gains (losses):				
Realized from actual transactions	7.3	35.8	54.8	57.5
Unrealized from changes in fair value of equity securities	128.4	—	17.7	—
Total realized and unrealized investment gains (losses)	135.7	35.8	72.6	57.5
Consolidated income (loss) before income taxes (credits)	\$335.1	\$59.6	\$575.7	\$370.7

	Quarters		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Consolidated Income Tax Expense (Credits):				
Total income tax expense (credits)				
of above Company segments	\$34.7	\$.7	\$87.8	\$90.4
Other sources - net (b)	(3.3)	.1	(4.4)	(.7)
Income tax expense (credits) on consolidated realized and unrealized investment gains (losses)	28.5	12.5	15.2	20.1
Consolidated income tax expense (credits)	\$59.8	\$13.4	\$98.6	\$109.7

	September 30,	December
	2018	31,
		2017
Consolidated Assets:		
General Insurance	\$ 16,752.1	\$16,055.5
Title Insurance	1,470.1	1,466.0
RFIG Run-off Business	765.9	805.0
Total assets for the above company segments	18,988.1	18,326.6
Other assets (b)	1,080.0	1,440.9
Consolidation elimination adjustments	(265.9)	(364.0)
Consolidated assets	\$ 19,802.3	\$19,403.5

Segment pretax operating income (loss) is reported net of interest charges on intercompany financing arrangements with Old Republic's holding company parent for the following segments: General - \$17.9 and \$49.9 compared to (a) \$14.3 and \$42.7 for the quarters and nine months ended September 30, 2018 and 2017, respectively, and Title - \$1.5 and \$4.6 compared to \$1.9 and \$6.3 for the quarters and nine months ended September 30, 2018 and 2017, 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 segment pretax operating income (loss) for the quarter and nine months ended September 30, 2017 include hurricane-related claim costs of \$20.0.

(d) RFIG Run-off segment pretax operating income (loss) 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.

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. Under GAAP, an estimated loss is accrued only if the loss is probable and reasonably estimable. At September 30, 2018, the Company did not have material non-claim litigation exposures in its consolidated business for which adequate loss and related expense provisions had not been made.

8. Debt:

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

	September 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
3.75% Convertible Senior Notes due 2018	\$—	\$—	\$470.6	\$652.2
4.875% Senior Notes issued in 2014 and due 2024	396.6	411.6	396.2	430.3
3.875% Senior Notes issued in 2016 and due 2026	545.5	527.8	545.1	553.9
ESSOP debt	—	—	4.2	4.2
Other miscellaneous debt	38.8	38.8	32.4	32.5
Total debt	\$981.1	\$978.4	\$1,448.7	\$1,673.2

During the first quarter 2018, the Company's outstanding aggregate principal amount of the 3.75% Convertible Senior Notes were converted into 32,229,787 shares of Old Republic common stock.

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
	Value	Value	1	2
			Level	3
Financial Liabilities:				
Debt:				
September 30, 2018	\$981.1	\$978.4	\$-939.5	\$38.8
December 31, 2017	\$1,448.7	\$1,673.2	\$-1,636.5	\$36.7

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 income 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.

The Tax Cuts and Jobs Act ("TCJA") was enacted into law on December 22, 2017. The TCJA, among its many elements, lowered the nominal federal corporate tax rate to 21.0% from 35.0%. The IRS requires the Company's insurance subsidiaries to discount loss reserves using either company specific payment patterns, or industry average tables published by the IRS. The Company has previously elected to follow the IRS industry average tables. The TCJA requires the IRS to publish tables linking the interest rates used to discount loss reserves to the corporate bond yield curve as opposed to the Federal mid-term rates used under the old law. As of the date of this report, the IRS has not published the updated tables. Accordingly, the Company has made a provisional estimate of the adjustment resulting from the application of the new IRS published discount rates. The initial provisional estimate resulted in an increase to deferred tax assets of approximately \$42.0, and a corresponding increase to deferred tax liabilities. The deferred tax liability is being amortized into taxable income over 8 years, with no impact to the Company's effective tax rate. Any adjustment to the loss reserve discount estimate will be recorded in the period in which additional information becomes available.

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OLD REPUBLIC INTERNATIONAL CORPORATION
MANAGEMENT ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS
Quarter and Nine Months Ended September 30, 2018 and 2017
(\$ 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 0.3% of consolidated operating revenues for the nine months ended September 30, 2018 and 0.7% 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 2017 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 policyholders and their 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 capital resources. 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 the following consolidated results:

	Quarters Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Pretax income (loss)	\$335.1	\$59.6	\$575.7	\$370.7
Pretax investment gains (losses) included in pretax income (loss)	135.7	35.8	72.6	57.5
Pretax income (loss) excluding investment gains (losses)	\$199.3	\$23.8	\$503.0	\$313.1
Net income (loss)	\$275.2	\$46.1	\$477.0	\$260.9
Net of tax investment gains (losses) included in net income (loss)	107.2	23.2	57.4	37.3
Net income (loss) excluding investment gains (losses)	\$167.9	\$22.8	\$419.6	\$223.5

As noted on the following pages, performance comparisons among the periods reported upon are affected by two significant events in 2018, and by special operating charges in 2017. The components of net income (loss) on a per share basis are shown in the Financial Highlights below.

FINANCIAL HIGHLIGHTS

	Quarters Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Change	2018	2017	Change
SUMMARY INCOME STATEMENTS:						
Revenues:						
Net premiums and fees earned	\$1,504.8	\$1,433.4	5.0 %	\$4,255.5	\$4,097.3	3.9 %
Net investment income	108.7	103.3	5.3	321.5	305.7	5.2
Other income	30.4	20.4	48.5	91.1	76.3	19.5
Total operating revenues	1,644.0	1,557.2	5.6	4,668.2	4,479.4	4.2
Investment gains (losses):						
Realized from actual transactions	7.3	35.8		54.8	57.5	
Unrealized from changes in fair value of equity securities	128.4	—		17.7	—	
Total investment gains (losses)	135.7	35.8		72.6	57.5	
Total revenues	1,779.7	1,593.0		4,740.9	4,536.9	
Operating expenses:						
Claim costs	619.4	766.4	(19.2)	1,820.8	1,944.7	(6.4)
Sales and general expenses	815.2	751.1	8.5	2,310.0	2,173.1	6.3
Interest and other costs	9.9	15.8	(37.0)	34.3	48.3	(28.9)
Total operating expenses	1,444.6	1,533.3	(5.8)%	4,165.2	4,166.2	— %
Pretax income (loss)	335.1	59.6		575.7	370.7	
Income taxes (credits)	59.8	13.4		98.6	109.7	
Net income (loss)	\$275.2	\$46.1		\$477.0	\$260.9	

COMMON STOCK STATISTICS:

Net income (loss) per share: Basic	\$0.92	\$0.18	\$1.63	\$1.00
Net income (loss) per share: Diluted	\$0.92	\$0.17	\$1.59	\$0.91
Components of net income (loss) per share:				
Basic net income (loss) excluding investment gains (losses)	\$0.56	\$0.09	\$1.43	\$0.86

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Net investment gains (losses):							
Realized from actual transactions	0.02	0.09			0.15	0.14	
Unrealized from changes in fair value of equity securities	0.34	—			0.05	—	
Basic net income (loss)	\$0.92	\$ 0.18			\$1.63	\$ 1.00	
Diluted net income (loss) excluding investment gains (losses)	\$0.56	\$ 0.09			\$1.40	\$ 0.79	
Net investment gains (losses):							
Realized from actual transactions	0.02	0.08			0.14	0.12	
Unrealized from changes in fair value of equity securities	0.34	—			0.05	—	
Diluted net income (loss)	\$0.92	\$ 0.17			\$1.59	\$ 0.91	
Cash dividends on common stock	\$0.1950	\$ 0.1900	2.6	%	\$0.5850	\$ 0.5700	2.6 %
Book value per share					\$17.76	\$ 18.05	(1.6)%
Common shares outstanding:							
Average basic	299,006,345	261,380,896	14.4	%	292,565,008	261,181,220	12.0 %
Average diluted	300,374,002	298,529,626	0.6	%	301,125,092	298,559,757	0.9 %
Actual, end of period					302,643,073	263,806,691	14.7 %

Effective January 1, 2018, two significant events transpired that have a bearing on the year-over-year comparability of consolidated pretax and net income. One arises from a new rule of the Financial Accounting Standards Board (“FASB”) that now requires the inclusion of unrealized investment gains or losses emanating from changes in the fair value of equity (but not fixed maturity) securities in the determination of pre and post-tax income. The second relates to a reduction of nominal Federal corporate income tax rates from 35% to 21%.

The realization of investment gains or losses can be highly discretionary and can be affected by such randomly occurring factors as the timing of individual securities sales, the recording of estimated losses from write-downs of impaired securities, tax-planning and tax-rate change considerations, and modifications of investment management judgments regarding the direction of securities markets or the future prospects of individual investees or industry sectors. The inclusion, starting in 2018, of securities market-driven changes in equity investments’ valuations will most likely produce, as it has in 2018, greater period-to-period fluctuations in reported net income, particularly at times of significant instability or volatility in such markets. The above-noted FASB change, however, has no effect on the determination of such critical elements as current income taxes, debt-to-equity ratios, shareholders’ equity, or insurance subsidiaries’ operations and their ability to pay dividends to the ORI holding company parent.

The tables on the previous page show the components of consolidated pretax and net income to highlight the effects of total realized and, beginning in 2018, unrealized investment gains or losses of equity securities on period-to-period comparisons. Management uses income exclusive of all investment gains (losses) to analyze, evaluate, and establish accountability for the results of Old Republic’s basic insurance operating performance. Net income, however, is the measure of total profitability according to generally accepted accounting principles (“GAAP”).

The table on the following page presents the major segmented elements of the Company’s financial performance. This reflects: 1) the above-cited significant events for 2018, and 2) special operating charges for the third quarter and nine months 2017 consisting of: (a) General insurance claims provisions (\$20.0 million) associated with then current evaluations of hurricane claim exposures, and (b) additional claim and related expense provisions (\$130.0 million) applicable to final settlements and probable dispositions of all known litigated and other claims costs incurred by the Company’s RFIG run-off business during the Great Recession years and their aftermath.

Underwriting and related services income (loss) consists of premiums, fees, and other income reduced by claim costs and sales and general expenses. Segmented and consolidated pretax income (loss) excluding investment gains (losses) consists of underwriting and related services income (loss) added to net investment income, and reduced by interest and other charges. In addition to the matters cited in the four paragraphs immediately above, 2018 pretax and net income excluding realized and unrealized investment gains (losses) benefitted most significantly from improved general insurance underwriting and related services performance, moderate growth in investment income, and reduced debt interest charges.

Generally speaking taxable income elements emanating from: (a) underwriting and related services and (b) investments in corporate and federal government debt securities are taxed at the nominal tax rates in effect during the reporting periods. Income emanating from: (c) investment in states’ and their subdivisions’ debt securities and (d) dividends earned on equity securities are taxed at a reduced nominal tax rate. The following table shows the effective income tax rate which results from application of such nominal or nominally-adjusted tax rates to the various components of taxable income.

Quarters	Nine Months
Ended	Ended
September 30,	September 30,

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	2018	2017	2018	2017
Net income (loss)	17.9%	22.6%	17.1%	29.6%
Realized investment gains (losses)	21.0%	35.0%	21.0%	35.0%
Unrealized investment gains (losses)	21.0%	N/A	20.8%	N/A
Net income (loss) excluding investment gains (losses)	15.7%	4.0 %	16.6%	28.6%

	Major Segmented and Consolidated Elements of Income (Loss)					
	Quarters Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Change	2018	2017	Change
Net premiums, fees, and other income:						
General insurance	\$841.5	\$801.3	5.0 %	\$2,441.3	\$2,313.7	5.5 %
Title insurance	640.7	596.8	7.4	1,743.6	1,670.5	4.4
Corporate and other	4.2	5.0	(14.8)	11.2	14.4	(22.2)
Other income	30.4	20.4	48.5	91.1	76.3	19.5
Subtotal	1,517.0	1,423.7	6.6	4,287.4	4,074.9	5.2
RFIG run-off business	18.2	30.2	(39.7)	59.2	98.7	(39.9)
Consolidated total	\$1,535.2	\$1,453.9	5.6 %	\$4,346.7	\$4,173.6	4.1 %
Underwriting and related services income (loss):						
General insurance	\$37.0	\$(4.4)	935.0 %	\$78.0	\$25.4	206.7 %
Title insurance	58.7	59.6	(1.6)	132.6	150.7	(12.0)
Corporate and other (a)	(4.0)	(3.7)	(7.5)	(17.4)	(15.5)	(12.1)
Subtotal	91.7	51.5	78.2	193.2	160.6	20.3
RFIG run-off business	8.7	(115.1)	107.6	22.6	(104.8)	121.6
Consolidated total	\$100.5	\$(63.6)	257.9 %	\$215.8	\$55.8	286.8 %
Consolidated composite ratio:						
Claim ratio	41.2 %	53.5 %		42.8 %	47.5 %	
Expense ratio	51.9	50.8		51.9	50.9	
Composite ratio	93.1 %	104.3 %		94.7 %	98.4 %	
Net investment income:						
General insurance	\$86.1	\$80.0	7.5 %	\$253.8	\$238.0	6.6 %
Title insurance	9.8	9.1	7.3	28.8	27.9	3.3
Corporate and other	8.1	8.6	(5.0)	23.4	23.2	0.8
Subtotal	104.1	97.8	6.4	306.1	289.2	5.8
RFIG run-off business	4.6	5.4	(15.3)	15.4	16.4	(6.1)
Consolidated total	\$108.7	\$103.3	5.3 %	\$321.5	\$305.7	5.2 %
Interest and other charges:						
General insurance	\$18.0	\$15.8		\$52.7	\$47.2	
Title insurance	0.8	1.5		3.2	5.8	
Corporate and other (b)	(8.9)	(1.6)		(21.6)	(4.8)	
Subtotal	9.9	15.8		34.3	48.3	
RFIG run-off business	—	—		—	—	
Consolidated total	\$9.9	\$15.8	(37.1)%	\$34.3	\$48.3	(28.9)%
Segmented and consolidated pretax income (loss) excluding investment gains (losses):						
General insurance	\$105.1	\$59.7	75.9 %	\$279.1	\$216.2	29.1 %
Title insurance	67.7	67.3	0.6	158.2	172.8	(8.5)
Corporate and other	13.1	6.5	101.6	27.6	12.4	121.0
Subtotal	185.9	133.5	39.2	464.9	401.5	15.8
RFIG run-off business	13.3	(109.7)	112.2	38.0	(88.3)	143.1
Consolidated pretax income (loss) excluding investment gains (losses)	199.3	23.8	735.5 %	503.0	313.1	60.6 %
Income taxes (credits) on above	31.3	0.9		83.4	89.6	
Net income (loss) excluding investment gains (losses)	167.9	22.8		419.6	223.5	

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Pretax investment gains (losses):				
Realized from actual transactions	7.3	35.8	54.8	57.5
Unrealized from changes in fair value of equity securities	128.4	—	17.7	—
Total realized and unrealized investment gains (losses)	135.7	35.8	72.6	57.5
Income taxes (credits) on investment gains (losses)	28.5	12.5	15.2	20.1
Net of tax investment gains (losses)	107.2	23.2	57.4	37.3
Net income (loss)	\$275.2	\$46.1	\$477.0	\$260.9

Net operating cash flows:

Consolidated			\$597.1	\$522.1	14.4	%
Exclusive of RFIG run-off business			\$620.0	\$598.6	3.6	%

(a) Includes general administrative expenses.

(b) Includes external interest costs, net of interest charges on intercompany financing arrangements, and consolidation/elimination entries.

General Insurance Segment Results - The table below shows the major elements affecting this segment's financial performance for the interim periods reported upon.

	General Insurance Business					
	Quarters Ended			Nine Months Ended		
	September 30,			September 30,		
	2018	2017	Change	2018	2017	Change
Net premiums earned	\$841.5	\$801.3	5.0 %	\$2,441.3	\$2,313.7	5.5 %
Net investment income	86.1	80.0	7.5	253.8	238.0	6.6
Other income	30.2	20.4	48.1	90.5	75.8	19.5
Operating revenues	957.8	901.8	6.2	2,785.7	2,627.6	6.0
Claim costs (a)	595.0	608.7	(2.3)	1,739.3	1,709.5	1.7
Sales and general expenses	239.6	217.4	10.2	714.5	654.5	9.2
Interest and other costs	18.0	15.8	13.9	52.7	47.2	11.5
Operating expenses	852.7	842.0	1.3	2,506.6	2,411.3	3.9
Segment pretax operating income (loss) (b)	\$105.1	\$59.7	75.9 %	\$279.1	\$216.2	29.1 %
Claim ratio	70.7%	76.0 %	71.2%	73.9%		
Expense ratio	24.9	24.6	25.6	25.0		
Composite ratio	95.6%	100.6%	96.8%	98.9%		

(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, \$0.2 and \$0.7 of pretax operating income for the third quarter and first nine months of 2018, and \$106.3 and \$123.0 of pretax operating losses for the third quarter and first nine months of 2017, respectively, were retained by (b) 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.

With few exceptions, earned premiums grew for most types of coverages and markets served. The cumulative effects of recent years' and ongoing premium rate increases for several insurance products, along with new business production were main contributory elements to premium growth. Higher premiums stemmed primarily from commercial automobile (trucking), national accounts, auto warranty, and the various coverages offered by a new underwriting facility established in early 2015. Net investment income gained in the context of a slightly higher invested asset base and relatively stable yield environment.

As the table below indicates, year-over-year claim ratios trended down in this year's first nine months. Better performance was driven by Old Republic's large books of workers' compensation and commercial automobile (trucking) coverages in particular. The improvement in this largest of cost elements was aided by slightly lower estimates of current year claim provisions, and a lessened impact from development of prior years' reserve estimates.

The table below shows recent annual and interim periods' claim ratio trends:

	Reported Claim Ratio	Effect of Prior Periods' (Favorable)/ Unfavorable Claim Reserves Development	Claim Ratio Excluding Prior Periods' Claim Reserves Development
2013	73.6%	(0.9)%	74.5%
2014	77.9	3.9	74.0
2015	74.1	1.5	72.6

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2016	73.0	0.3	72.7
2017	71.8%	0.7%	71.1%
3rd Quarter 2017	76.0%	1.7%	74.3%
3rd Quarter 2018	70.7%	(1.0)%	71.7%
1st Nine Months 2017	73.9%	1.8%	72.1%
1st Nine Months 2018	71.2%	0.3%	70.9%

As this year is progressing, the expense ratio is staying aligned with revenue trends.

Quarterly and even annual claim provisions and the trends they display may not be particularly meaningful indicators of future outcomes for Old Republic's liability-oriented mix of business. Absent significant economic and insurance industry dislocations in the foreseeable future, it is currently anticipated that reported claim ratios can be expected to fall within targeted averages in the high 60 to low 70 percent range. The current mix of business should reflect an expense ratio ranging between 23 and 25 percent.

Title Insurance Segment Results - The table below shows the major elements affecting this segment's financial performance for the interim periods reported upon.

	Title Insurance Business					
	Quarters Ended			Nine Months Ended		
	September 30,			September 30,		
	2018	2017	Change	2018	2017	Change
Net premiums and fees earned	\$640.7	\$596.8	7.4 %	\$1,743.6	\$1,670.5	4.4 %
Net investment income	9.8	9.1	7.3	28.8	27.9	3.3
Other income	0.1	0.1	88.5	0.6	0.5	24.9
Operating revenues	650.8	606.1	7.4	1,773.1	1,699.0	4.4
Claim costs	15.1	12.3	22.2	45.0	34.6	30.0
Sales and general expenses	567.1	524.9	8.0	1,566.6	1,485.6	5.4
Interest and other costs	0.8	1.5	(46.1)	3.2	5.8	(43.8)
Operating expenses	583.1	538.8	8.2	1,614.9	1,526.1	5.8
Segment pretax operating income (loss)	\$67.7	\$67.3	0.6 %	\$158.2	\$172.8	(8.5) %
Claim ratio	2.4 %	2.1 %	2.6 %	2.1 %		
Expense ratio	88.5	87.9	89.8	88.9		
Composite ratio	90.9%	90.0%	92.4%	91.0%		

2018 year-over-year comparisons of revenues from title premiums and fees reflect mid-single digit growth paced by independent agents' production and a slower rise in directly-produced business. By contrast, claim costs trended higher as favorable development of prior years' claim reserve estimates edged down. The following table shows recent annual and interim periods' claim ratio trends:

	Reported Claim Ratio	Effect of Prior Periods' (Favorable)/ Unfavorable Claim Reserves Development	Claim Ratio Excluding Prior Periods' Claim Reserves Development
2013	6.7%	(0.2)%	6.9%
2014	5.2	(0.8)	6.0
2015	4.9	(0.6)	5.5
2016	3.8	(1.1)	4.9
2017	0.9%	(3.3)%	4.2%
3rd Quarter 2017	2.1%	(2.1)%	4.2%
3rd Quarter 2018	2.4%	(1.8)%	4.2%
1st Nine Months 2017	2.1%	(2.1)%	4.2%
1st Nine Months 2018	2.6%	(1.5)%	4.1%

Net investment income reflected a relatively stable invested asset balance and investment yield environment. The operating expense ratio is staying within range of expectations for this segment's current and foreseeable business environment.

RFIG Run-off Segment Results - The table below shows the major elements affecting this segment's financial performance for the interim periods reported upon.

	RFIG Run-off Business					
	Quarters Ended			Nine Months Ended		
	September 30,		Change	September 30,		Change
2018	2017	2018		2017		
A. Mortgage Insurance (MI)						
Net premiums earned	\$17.8	\$25.6	(30.3)%	\$58.0	\$86.1	(32.6)%
Net investment income	4.3	5.1	(13.8)	14.7	15.4	(4.3)
Claim costs (a)	5.5	29.9	(81.4)%	23.3	51.2	(54.4)
MI pretax operating income (loss)	\$13.2	\$(3.0)	N/M	\$37.9	\$35.7	6.2 %
Claim ratio (a)	31.1%	116.8%	40.2%	59.5%		
Expense ratio	19.1	14.9	19.9	16.9		
Composite ratio	50.2%	131.7%	60.1%	76.4%		
B. Consumer Credit Indemnity (CCI)						
Net premiums earned	\$0.3	\$4.5	(92.1)%	\$1.2	\$12.5	(90.4)%
Net investment income	0.2	0.3	(38.5)	0.6	1.0	(34.5)
Claim costs (a)	0.1	111.1	(99.9)	0.5	135.9	(99.6)
CCI pretax operating income (loss) (b)	\$—	\$(106.7)	100.1 %	\$0.1	\$(124.1)	100.1 %
Claim ratio (a)	36.3 %	N/M	42.1 %	N/M		
Expense ratio	105.2	N/M	102.6	N/M		
Composite ratio	141.5%	N/M	144.7%	N/M		
C. Total MI and CCI run-off business:						
Net premiums earned	\$18.2	\$30.2	(39.7)%	\$59.2	\$98.7	(39.9)%
Net investment income	4.6	5.4	(15.3)	15.4	16.4	(6.1)
Claim costs (a)	5.6	141.0	(96.0)	23.8	187.1	(87.3)
Segment pretax operating income (loss) (b)	\$13.3	\$(109.7)	112.2 %	\$38.0	\$(88.3)	143.1 %
Claim ratio (a)	31.2%	466.6%	40.2%	189.6%		
Expense ratio	20.8	14.5 %	21.6	16.6		
Composite ratio	52.0%	481.1%	61.8%	206.2%		

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, \$0.2 and \$0.7 of pretax operating income for the third quarter and first nine months of 2018, and \$106.3 and \$123.0 of pretax operating losses for the third quarter and first nine months of 2017, respectively, were retained by (b) 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.

Pretax operating results of the run-off MI and CCI business reflect the expected, continuing drop in net earned premiums from declining risk in force. For the CCI coverage in particular, the much lower premiums in this year's interim periods resulted mostly from the elimination of a major bank business relationship, which had been a significant source of both earned premiums and litigated claim costs.

The ratios of MI incurred claim costs to earned premiums were reduced by 10.4 and 25.7 percentage points in this year's third quarter and first nine months, respectively. For the same respective periods of 2017, the reductions amounted to 60.2 and 39.8 percentage points. In each instance, the reductions reflect favorable developments of prior years' claim reserves. MI claim costs for 2017's interim periods, however, had risen most significantly due to \$23.0 of additional claim provisions, which added 89.8 and 26.7 percentage points to the claim ratios for the third quarter and first nine months of 2017, respectively.

The much more favorable CCI claim ratios for this years' third quarter and first nine months reflect the absence of the aforementioned litigation-induced claim costs which had burdened this book of business for many years through 2017's third quarter. During the latter period, additional claim provisions in the amount of \$107.0 were made to cover the final settlements and probable dispositions of all known litigated and other claim costs incurred during the Great Recession and its aftermath.

Corporate and Other Results - The combination of a small life and accident insurance business and the net costs associated with the parent holding company and its internal services subsidiaries usually produce highly variable results. Earnings variations stem from volatility inherent to the small scale of the life and accident insurance line, net investment income, and net interest charges pertaining to external and intra-system financing arrangements. This year's third quarter and first nine months results were enhanced by the elimination of interest costs related to outstanding external debt converted into ORI common stock in March. The interplay of these various elements is summarized in the following table:

	Corporate and Other Operations			
	Quarters Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net life and accident premiums earned	\$4.2	\$5.0	\$11.2	\$14.4
Net investment income	8.1	8.6	23.4	23.2
Other operating income	—	—	—	—
Operating revenues	12.4	13.5	34.6	37.6
Claim costs	3.5	4.2	12.6	13.5
Insurance expenses	1.3	1.3	3.7	6.9
Corporate, interest and other expenses - net	(5.6)	1.5	(9.3)	4.7
Operating expenses	(0.6)	7.0	7.0	25.1
Corporate and other pretax operating income (loss)	\$13.1	\$6.5	\$27.6	\$12.4

Summary Consolidated Balance Sheet - The following table shows Old Republic's consolidated financial position at the dates shown.

	September 30, 2018	December 31, 2017	September 30, 2017
Assets:			
Cash and fixed maturity securities	\$9,817.2	\$10,145.9	\$10,297.2
Equity securities	3,474.3	3,265.5	3,140.2
Other invested assets	128.5	124.9	128.8
Cash and invested assets	13,420.1	13,536.4	13,566.3
Accounts and premiums receivable	1,643.0	1,469.7	1,589.8
Prepaid federal income taxes	114.3	114.3	114.3
Reinsurance balances recoverable	3,637.2	3,371.8	3,568.9
Sundry assets	987.5	911.1	907.9
Total	\$19,802.3	\$19,403.5	\$19,747.4
Liabilities and Shareholders' Equity:			
Policy liabilities	\$2,450.5	\$2,176.3	\$2,308.6
Claim reserves	9,482.9	9,237.6	9,694.4
Federal income tax payable: Current	3.7	6.5	25.2
Deferred	54.7	100.5	71.4
Debt	981.1	1,448.7	1,526.9
Sundry liabilities	1,517.9	1,700.5	1,401.5
Shareholders' equity	5,311.2	(a) 4,733.3	4,719.0

Total \$19,802.3 \$19,403.5 \$19,747.4

(a) Reflects the completed conversion of the 3.75% convertible senior notes into ORI common stock in March, 2018.

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

	Cash, Invested Assets, and Shareholders' Equity			% Change	
	Sept. 30, 2018	Dec. 31, 2017	Sept. 30, 2017	Sept. '18/ Dec. '17	Sept. '18/ Sept. '17
Cash and invested assets:					
Invested assets, carried at fair value	\$12,369.6	\$12,468.9	\$12,493.2	(0.8)%	(1.0)%
Held to maturity, carried at amortized cost	1,050.5	1,067.4	1,073.0	(1.6)%	(2.1)%
Total per balance sheet	\$13,420.1	\$13,536.4	\$13,566.3	(0.9)%	(1.1)%
Total at original cost for all	\$12,886.1	\$12,783.4	\$12,764.3	0.8 %	1.0 %
Shareholders' equity:					
Total	\$5,311.2	\$4,733.3	\$4,719.0	12.2 %	12.5 %
Per common share	\$17.76	\$17.72	\$18.05	0.2 %	(1.6)%

Composition of shareholders' equity per share:

Equity before items below	\$16.76	\$16.26	\$16.36	3.1 %	2.4 %
Unrealized investment gains (losses) and other accumulated comprehensive income (loss)	1.00	1.46	1.69		
Total	\$17.76	\$17.72	\$18.05	0.2 %	(1.6)%

Segmented composition of shareholders' equity per share:

Excluding run-off segment	\$16.26	\$16.14	\$16.67	0.7 %	(2.5)%
RFIG run-off segment	1.50	1.58	1.38		
Consolidated total	\$17.76	\$17.72	\$18.05	0.2 %	(1.6)%

Old Republic's invested assets portfolio is directed in consideration of enterprise-wide risk management objectives. Most importantly, these are intended to ensure solid funding of the insurance subsidiaries' long-term obligations to policyholders and other beneficiaries, as well as the long-term stability of the subsidiaries' capital accounts. To this end, the investment portfolio contains no significant insurance risk-correlated asset exposures to real estate,

mortgage-backed securities, collateralized debt obligations ("CDO's"), derivatives, hybrid securities, or illiquid private equity and hedge fund investments. Moreover, 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.

As of September 30, 2018, the consolidated investment portfolio reflected an allocation of approximately 74% to fixed-maturity and short-term investments, and 26% to high quality, dividend-paying equity securities. The asset quality of the fixed maturity portfolio has remained at high levels.

Changes in shareholders' equity per share are reflected in the following table. As shown, these resulted mostly from net income, dividend payments to shareholders, and changes in the value of invested assets carried at fair value.

	Shareholders' Equity Per Share			
	Quarter			Year
	Ended	Nine Months Ended		Ended
	Sept. 30, 2018	September 30, 2018	2017	Dec. 31, 2017
Beginning balance	\$17.08	\$17.72	\$17.16	\$17.16
Changes in shareholders' equity:				
Net income (loss) excluding net investment gains (losses)	0.56	1.43	0.86	1.21
Net of tax realized investment gains (losses) from actual transactions	0.02	0.15	0.14	0.93
Net of tax unrealized investment gains (losses) on securities carried at fair value:				
Reported in net income (loss)	0.34	0.05	—	—
Reported as other comprehensive income (loss)	(0.06)	(0.62)	0.40	0.28
Subtotal	0.28	(0.57)	0.40	0.28
Total net of tax realized and unrealized investment gains (losses)	0.30	(0.42)	0.54	1.21
Cash dividends (a)	(0.1950)	(0.5850)	(0.5700)	(1.7600)
Debt conversion, stock issuance, and other transactions	0.02	(0.38)	0.06	(0.10)
Net change	0.68	0.04	0.89	0.56
Ending balance	\$17.76	\$17.76	\$18.05	\$17.72
Percentage change for the period	4.0 %	0.2 %	5.2 %	3.3 %

(a) Full year 2017 includes a special cash dividend of \$1.00 per share.

Capitalization - The following table shows the components of ORI's total capitalization. The most significant change during the fiscal twelve-months ended September 30, 2018 relates to the completed conversion of the 3.75% convertible senior notes into ORI common stock in March 2018.

	Capitalization		
	September	December	September
	30, 2018	31, 2017	30, 2017
Debt:			
3.75% Convertible Senior Notes due 2018	\$—	\$470.6	\$549.1
4.875% Senior Notes due 2024	396.6	396.2	396.1
3.875% Senior Notes due 2026	545.5	545.1	545.0
ESSOP debt	—	4.2	4.2
Other miscellaneous debt	38.8	32.4	32.4
Total debt	981.1	1,448.7	1,526.9
Common shareholders' equity	5,311.2	4,733.3	4,719.0
Total capitalization	\$6,292.3	\$6,182.0	\$6,245.9

Capitalization ratios:

Debt	15.6 %	23.4 %	24.4 %
Common shareholders' equity	84.4	76.6	75.6

Total 100.0 % 100.0 % 100.0 %

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DETAILED MANAGEMENT ANALYSIS

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

FINANCIAL ACCOUNTING AND REPORTING POLICIES

The Company's annual and interim financial statements incorporate a large number and types of estimates relative to matters which are highly uncertain at the time the estimates are made. The estimation process required of an insurance enterprise such as Old Republic 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 investments; b) the valuation of deferred income tax assets; c) the establishment and recoverability of deferred acquisition costs; 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 Company's 2017 Annual Report on Form 10-K.

FINANCIAL POSITION

The Company's financial position at September 30, 2018 reflected increases in assets and common shareholders' equity of 2.1% and 12.2%, respectively, and a decline in liabilities of 1.2% when compared to the immediately preceding year-end. Cash and invested assets represented 67.8% and 69.8% of consolidated assets as of September 30, 2018 and December 31, 2017, respectively. As of September 30, 2018, the cash, accrued investment income, and invested asset base declined by 0.9% to \$13,420.1.

Investments - During the first nine months of 2018 and 2017, the Company committed the majority of investable funds to short to intermediate-term fixed maturity securities and higher yielding publicly traded large capitalization equity securities. At both September 30, 2018 and 2017, 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 investment portfolio contains no significant insurance risk-correlated asset exposures to real estate, mortgage-backed securities, collateralized debt obligations ("CDO's"), derivatives, hybrid securities, or illiquid private equity and hedge fund investments. Moreover, the Company does not engage in hedging or securities lending transactions, nor does it invest in securities whose values are predicated on non-regulated financial instruments exhibiting amorphous or unfunded counter-party risk attributes. At September 30, 2018, the Company had no fixed maturity investments in default as to principal and/or interest.

Short-term maturity investment positions reflect a large variety of seasonal and intermediate-term factors including current operating needs, expected operating cash flows, seasonality of quarterly cash flow, 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 of available for sale securities are reflected, net of deferred income taxes, directly in the shareholders' equity account, and as a separate component of the statement of comprehensive income. Fixed maturity securities classified as held to maturity are carried at amortized cost, and therefore, fluctuations in unrealized gains and losses do not impact shareholders' equity. Given the Company's inability to forecast or control the movement of interest rates, Old Republic sets the maturity spectrum of its fixed maturity securities portfolio within parameters of estimated liability payouts, and focuses the overall portfolio on high quality investments. By so doing, Old Republic believes it is reasonably assured of its ability to hold securities to maturity as it may deem necessary in changing environments, and of ultimately recovering their aggregate cost.

Possible future declines in fair values for Old Republic's available for sale fixed maturity portfolio 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 fixed maturity 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 audited financial statements, 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. 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 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 in shareholders' equity.

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)

	September 30, 2018		December 31, 2017	
		%		%
Aaa	20.6	%	21.6	%
Aa	13.1		12.9	
A	31.6		31.8	
Baa	28.7		27.5	
Total investment grade	94.0		93.8	
All other (b)	6.0		6.2	
Total	100.0	%	100.0	%

Credit quality ratings referred to herein are a blend of those assigned by the major credit rating agencies for U.S. (a) and Canadian Governments, Agencies, Corporates and Municipal issuers, which are converted to the above 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

September 30, 2018	Amortized Cost	Gross Unrealized Losses
Fixed Maturity		

Securities

by

Industry

Concentration:

Energy	\$ 115.9	\$ 2.9
Health Care	26.2	2.1
Basic Industry	20.7	1.2
Consumer Durable	29.6	1.2
Other (includes 6 industry groups)	128.7	1.2
Total	\$ 321.4	(c)\$ 8.7

(c) Represents 3.5% of the total fixed maturity securities portfolio.

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

September 30, 2018	Amortized Cost	Gross Unrealized Losses
Fixed Maturity Securities by Industry Concentration:		
U.S.		
Government & Agencies	\$ 1,265.9	\$ 32.4
Municipals	1,006.2	28.4
Utilities	898.2	27.2
Industrial	568.3	15.7
Other (includes 17 industry groups)	3,028.4	68.0
Total	\$ 6,767.2	(d)\$ 171.9

(d) Represents 73.3% of the total fixed maturity securities portfolio.

Gross Unrealized Losses Stratified
by Industry Concentration for
Equity Securities

September 30, 2018	Cost	Gross Unrealized Losses
Equity Securities by Industry Concentration:		
Consumer		
Non Durable	\$ 184.6	\$ 22.0
Utilities	137.1	12.0
Financial	25.3	2.9
Health Care	34.9	1.9
Other (includes 5 industry	221.7	3.4

groups)

Total \$603.7(e)\$ 42.3 (f)

(e) Represents 21.4% of the total equity securities portfolio.

(f) Represents 1.5% of the cost of the total equity securities portfolio, while gross unrealized gains represent 24.7% of the portfolio.

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

September 30, 2018	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	\$335.0	\$ —	\$1.7	\$ —
or less				
Due after one year	3,366.9	174.5	68.8	2.3
through				
five years				
Due after five years	3,351.8	138.3	109.1	6.1
through				
ten years				
Due after ten years	34.9	8.5	1.0	.2
Total	\$7,088.7	\$ 321.4	\$180.7	\$ 8.7

Gross Unrealized Losses Stratified by
Duration and Amount of Unrealized Losses

September 30, 2018	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
Unrealized
Loss
Position:

Fixed
Maturity
Securities:

One to six months	\$64.3	\$	—	—	\$ 64.3
Seven to twelve months	53.0	—	—	—	53.0
More than twelve months	63.3	—	—	—	63.3
Total	\$180.7	\$	—	—	\$ 180.7

Number
of Issues
in
Unrealized
Loss
Position:

Fixed
Maturity
Securities:

One to six months	823	—	—	—	823
Seven to	279	—	—	—	279

twelve months				
More than twelve months	409	—	—	409
Total	1,511	—	—	1,511 (g)

(g) At September 30, 2018 the number of issues in an unrealized loss position represent 77.1% of the total number of such fixed maturity issues held by the Company.

The aging of issues with unrealized losses employs balance sheet date fair value comparisons with an issue's amortized cost. The percentage reduction from such cost reflects the decline as of a specific point in time (September 30, 2018 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

	September 30, 2018	December 31, 2017		
Maturity Ranges:				
Due in one year or less	6.6 %	9.2 %		
Due after one year through five years	51.1	45.5		
Due after five years through ten years	41.4	44.1		
Due after ten years through fifteen years	.8	1.0		
Due after fifteen years	.1	.2		
Total	100.0 %	100.0 %		

Average Maturity 4.6 in Years	4.7
Duration 4.1 (h)	4.2

(h) Duration is used as a measure of bond price sensitivity to interest rate changes. A duration of 4.1 as of September 30, 2018 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 4.1%.

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Composition of Unrealized Gains (Losses)

	September 30, 2018	December 31, 2017
Available for Sale:		
Fixed Maturity Securities:		
Amortized cost	\$ 8,187.5	\$ 8,162.2
Estimated fair value	8,070.7	8,282.3
Net unrealized gains (losses)	(116.8)	120.0

Components of net unrealized gains (losses):

Gross unrealized gains	35.5	147.4
Gross unrealized losses	(152.3)	(27.3)
Net unrealized gains (losses)	\$ (116.8)	\$ 120.0

Equity

Securities:		
Original cost	\$ 2,820.9	\$ 2,629.9
Estimated fair value	3,474.3	3,265.5
Net unrealized gains (losses)	653.4	(i)635.6

Components of net unrealized gains (losses):

Gross unrealized gains	695.7	658.8
Gross unrealized losses	(42.3)	(23.2)

Net unrealized gains (losses)	\$ 653.4	(i)\$ 635.6
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(i) Effective January 1, 2018, changes in fair value of equity securities are recognized in net income. See Note 3.

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 direct costs relating to the successful acquisition of new or renewal insurance contracts and evaluating their recoverability on the basis of recent trends in claims costs. The Company's deferred policy acquisition cost balances have not fluctuated substantially from period-to-period, and do not represent significant percentages of assets or shareholders' equity.

Liquidity - The parent holding company meets its liquidity and capital needs principally through dividends and interest on intercompany financing arrangements 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 \$554.6 in dividends from its subsidiaries in 2018 without the prior approval of regulatory authorities. The liquidity achievable through such permitted dividend payments is considered sufficient to cover the parent holding company's currently expected cash outflows represented mostly by interest and scheduled repayments on outstanding debt, reasonably anticipated cash dividend payments to shareholders, modest operating expenses, and the near-term capital needs of its operating company subsidiaries.

Capitalization - Old Republic's total capitalization of \$6,292.3 at September 30, 2018 consisted of debt of \$981.1 and common shareholders' equity of \$5,311.2. Changes in the common shareholders' equity account reflect primarily net income for the period then ended, changes in the fair value of fixed maturity securities, dividend payments and the conversion of all the 2018 Convertible Senior Notes into the Company's common stock. At September 30, 2018, the Company's consolidated debt to equity ratio was 18.5%.

Old Republic has paid a cash dividend without interruption since the World War II year of 1942 (77 years), and it has raised the annual cash dividend payout for each of the past 37 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 to ten most recent calendar years, and management's long-term expectations for the Company's consolidated business and its individual operating subsidiaries.

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. Since the Company's mortgage insurance subsidiaries have discontinued writing new business the risk-to-capital ratio considerations are therefore no longer of consequence.

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.

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 26% of 2018 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 74% 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 Company's mortgage guaranty premiums primarily stem from monthly installments paid on long-duration, guaranteed renewable insurance policies. 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 RFIG Run-off Business' Risk Factors for premium income and long-term claim exposures in the Company's 2017 Annual Report on Form 10-K under Item 1A - Risk Factors, revenue recognition for insured loans is not appropriately matched to the risk exposure and the consequent recognition of both normal and catastrophic loss occurrences.

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

	Earned Premiums and Fees					%	
	General	Title	RFIG Run-off	Other	Total	Change from prior period	
Years Ended December 31:							
2015	\$2,894.7	\$2,045.3	\$ 219.9	\$19.4	\$5,179.4	7.7	%
2016	2,936.3	2,206.6	170.0	20.1	5,333.2	3.0	
2017	3,110.8	2,287.2	122.9	18.8	5,539.7	3.9	
Nine Months Ended September 30:							
2017	2,313.7	1,670.5	98.7	14.4	4,097.3	4.4	
2018	2,441.3	1,743.6	59.2	11.2	4,255.5	3.9	
Quarters Ended September 30:							
2017	801.3	596.8	30.2	5.0	1,433.4	5.0	
2018	\$841.5	\$640.7	\$ 18.2	\$4.2	\$1,504.8	5.0	%

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

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	General Insurance Earned Premiums by Type of Coverage									
	Commercial			Inland			Other			
	Workers Compensation (including trucking)	Automobile	Financial Indemnity	Marine and Property	General Liability					
Years Ended December 31:										
2015	39.0%	32.1	%	4.1	%	7.4	%	5.9	%	11.5%
2016	36.5	33.7		4.3		7.4		5.6		12.5
2017	33.6	34.6		4.9		7.6		6.3		13.0
Nine Months Ended September 30:										
2017	33.9	34.7		4.9		7.5		5.9		13.1
2018	31.2	36.4		5.3		7.7		6.2		13.2
Quarters Ended September 30:										
2017	32.6	35.4		5.3		7.6		5.7		13.4
2018	30.6%	36.9	%	5.3	%	7.7	%	6.0	%	13.5%

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:				
2015	27.2	%	72.8	%
2016	27.9		72.1	
2017	26.9		73.1	
Nine Months Ended September 30:				
2017	27.4		72.6	
2018	26.2		73.8	
Quarters Ended September 30:				
2017	27.0		73.0	
2018	25.3	%	74.7	%

The following tables provide information on production and related risk exposure trends for Old Republic's mortgage guaranty insurance operation:

Premium and Persistency Trends by Type:	Earned Premiums		Persistency	
	Direct	Net	Traditional Primary	Bulk
Years Ended December 31:				
2015	\$201.1	\$195.9	79.9%	56.1%
2016	157.1	154.1	77.7	72.8
2017	110.4	109.8	77.9	78.2
Nine Months Ended September 30:				
2017	86.6	86.1	76.9	