

OLD REPUBLIC INTERNATIONAL CORP  
Form 10-Q  
May 06, 2016

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

FORM 10-Q

Quarterly report pursuant to section 13 or 15(d) of the Security Exchange Act of 1934  
for the quarterly period ended: March 31, 2016 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, or a smaller reporting company. See definitions of "accelerated filer", "large accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one).

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

Class	Shares Outstanding March 31, 2016
Common Stock / \$1 par value	262,175,827

There are 47 pages in this report

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OLD REPUBLIC INTERNATIONAL CORPORATION

Report on Form 10-Q / March 31, 2016

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

	(Unaudited)	
	March 31, 2016	December 31, 2015
Assets		
Investments:		
Available for sale:		
Fixed maturity securities (at fair value) (amortized cost: \$8,153.7 and \$8,149.4)	\$8,333.2	\$ 8,181.5
Equity securities (at fair value) (cost: \$1,849.4 and \$1,826.4)	2,131.6	1,987.8
Short-term investments (at fair value which approximates cost)	650.3	669.4
Miscellaneous investments	27.0	27.2
Total	11,142.3	10,866.1
Held to maturity:		
Fixed maturity securities (at amortized cost) (fair value: \$521.6 and \$359.7)	511.3	355.8
Other investments	3.3	3.5
Total investments	11,657.0	11,225.5
Other Assets:		
Cash	137.1	159.8
Securities and indebtedness of related parties	19.1	27.7
Accrued investment income	94.4	90.1
Accounts and notes receivable	1,372.2	1,310.2
Federal income tax recoverable: Current	—	26.5
Deferred	56.2	154.5
Prepaid federal income taxes	82.4	63.3
Reinsurance balances and funds held	126.8	129.0
Reinsurance recoverable: Paid losses	72.0	61.1
Policy and claim reserves	3,081.3	3,122.5
Deferred policy acquisition costs	260.3	255.4
Sundry assets	473.9	475.6
Total Other Assets	5,776.2	5,876.1
Total Assets	\$ 17,433.3	\$ 17,101.6
Liabilities, Preferred Stock, and Common Shareholders' Equity		
Liabilities:		
Losses, claims, and settlement expenses	\$9,067.5	\$ 9,120.1
Unearned premiums	1,779.6	1,748.7
Other policyholders' benefits and funds	198.1	196.4
Total policy liabilities and accruals	11,045.3	11,065.3
Commissions, expenses, fees, and taxes	446.7	452.3
Reinsurance balances and funds	535.1	496.1
Federal income tax payable: Current	28.6	—
Debt	982.3	952.8
Sundry liabilities	252.2	253.9
Commitments and contingent liabilities		
Total Liabilities	13,290.6	13,220.7
Preferred Stock (1)	—	—
Common Shareholders' Equity:		
Common stock (1)	262.1	261.9

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Additional paid-in capital	702.3	698.0
Retained earnings	3,012.1	2,937.5
Accumulated other comprehensive income	210.2	29.2
Unallocated ESSOP shares (at cost)	(44.2 )	(45.8 )
Total Common Shareholders' Equity	4,142.6	3,880.8
Total Liabilities, Preferred Stock and Common Shareholders' Equity	\$ 17,433.3	\$ 17,101.6

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At March 31, 2016 and December 31, 2015, 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 (1) stock, \$1.00 par value, authorized, of which 262,175,827 and 261,968,328 were issued as of March 31, 2016 and December 31, 2015, respectively. At March 31, 2016 and December 31, 2015, there were 100,000,000 shares of Class B Common Stock, \$1.00 par value, authorized, of which no shares were issued.

See accompanying Notes to Consolidated Financial Statements.

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

	Quarters Ended	
	March 31,	
	2016	2015
Revenues:		
Net premiums earned	\$ 1,150.8	\$ 1,103.0
Title, escrow, and other fees	94.8	91.4
Total premiums and fees	1,245.7	1,194.4
Net investment income	96.3	91.4
Other income	27.3	25.4
Total operating revenues	1,369.3	1,311.3
Realized investment gains (losses):		
From sales	44.1	18.8
From impairments	—	—
Total realized investment gains (losses)	44.1	18.8
Total revenues	1,413.5	1,330.2
Benefits, Claims and Expenses:		
Benefits, claims and settlement expenses	569.8	564.8
Dividends to policyholders	4.2	5.3
Underwriting, acquisition, and other expenses	646.3	595.7
Interest and other charges	10.7	10.5
Total expenses	1,231.1	1,176.4
Income before income taxes (credits)	182.3	153.7
Income Taxes (Credits):		
Current	57.1	48.9
Deferred	2.2	1.3
Total	59.3	50.3
Net Income	\$ 122.9	\$ 103.4
Net Income Per Share:		
Basic	\$.48	\$.40
Diluted	\$.43	\$.36
Average shares outstanding: Basic		
	258,657,923	259,118,634
Diluted		
	295,543,800	295,547,223
Dividends Per Common Share:		
Cash	\$.1875	\$.1850

See accompanying Notes to Consolidated Financial Statements.

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

	Quarters Ended	
	March 31,	
	2016	2015
Net Income As Reported	\$122.9	\$103.4
Other comprehensive income (loss):		
Unrealized gains (losses) on securities:		
Unrealized gains (losses) on securities before reclassifications	312.5	73.8
Amounts reclassified as realized investment gains from sales in the statements of income	(44.1 )	(18.8 )
Pretax unrealized gains (losses) on securities	268.3	54.9
Deferred income taxes (credits)	93.8	19.0
Net unrealized gains (losses) on securities, net of tax	174.4	35.9
Defined benefit pension plans:		
Net pension adjustment before reclassifications	.1	.1
Amounts reclassified as underwriting, acquisition, and other expenses in the statements of income	.1	.2
Net adjustment related to defined benefit pension plans	.2	.3
Deferred income taxes (credits)	.1	.1
Net adjustment related to defined benefit pension plans, net of tax	.1	.2
Foreign currency translation and other adjustments	6.3	(7.7 )
Net adjustments	180.9	28.4
Comprehensive Income (Loss)	\$303.9	\$131.8

See accompanying Notes to Consolidated Financial Statements.

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

	Quarters Ended	
	March 31,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 122.9	\$ 103.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred policy acquisition costs	(4.6 )	(5.2 )
Premiums and other receivables	(61.7 )	(48.2 )
Unpaid claims and related items	12.6	23.5
Unearned premiums and other policyholders' liabilities	8.3	10.4
Income taxes	57.2	48.9
Prepaid federal income taxes	(19.1 )	(7.7 )
Reinsurance balances and funds	30.0	55.3
Realized investment (gains) losses	(44.1 )	(18.8 )
Accounts payable, accrued expenses and other	24.4	29.2
Total	125.9	190.8
Cash flows from investing activities:		
Fixed maturity securities:		
Available for sale:		
Maturities and early calls	250.6	168.3
Sales	70.5	49.5
Sales of:		
Equity securities	252.7	34.9
Other - net	4.5	4.4
Purchases of:		
Fixed maturity securities:		
Available for sale	(323.1 )	(314.5 )
Held to maturity	(157.4 )	—
Equity securities	(233.9 )	(88.7 )
Other - net	(12.0 )	(8.7 )
Net decrease (increase) in short-term investments	19.2	28.0
Other - net	—	—
Total	(128.8 )	(126.7 )
Cash flows from financing activities:		
Issuance of debentures and notes	32.4	—
Issuance of common shares	1.8	1.9
Redemption of debentures and notes	(3.5 )	(3.3 )
Dividends on common shares	(48.3 )	(47.8 )
Other - net	(2.2 )	(1.2 )
Total	(19.8 )	(50.4 )
Increase (decrease) in cash	(22.7 )	13.6
Cash, beginning of period	159.8	136.7



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Cash, end of period	\$ 137.1	\$ 150.4
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Supplemental cash flow information:

Cash paid (received) during the period for: Interest	\$ 20.1	\$ 20.5
Income taxes	\$ 1.8	\$ 1.7

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 2015 Annual Report on Form 10-K incorporated herein by reference.

Pertinent accounting and disclosure pronouncements issued from time to time by the FASB are adopted by the Company as they become effective. In May 2015, the FASB issued guidance requiring additional disclosures about short-duration insurance contracts. The new disclosures, which are required for annual periods beginning after December 31, 2015 and for interim periods beginning after December 31, 2016, are intended to provide additional information about insurance liabilities including the nature, amount, timing, and uncertainty of future cash flows related to those liabilities. In May 2014, the FASB issued a comprehensive revenue recognition standard which will be effective in 2018 and applies to all entities that have contracts with customers, except for those that fall within the scope of other standards, such as insurance contracts. In January 2016, the FASB issued guidance on the recognition and measurement of financial instruments which will be effective in 2018. Among other changes, the standard will require equity investments to be measured at fair value with changes in fair value recognized in the consolidated statement of income. In February 2016, the FASB issued guidance on lease accounting which will be effective in 2019 and requires balance sheet recognition of all leases with a term of greater than 12 months. Most recently, in March 2016, the FASB issued guidance intended to simplify certain aspects of accounting for share-based payment award transactions which will be effective beginning in 2017. The Company is currently evaluating this guidance to determine the potential impact of its adoption on its consolidated financial statements. Certain debt amounts have been reduced due to the reclassification of relatively immaterial debt issuance costs previously classified as deferred assets, in order to comply with a 2015 pronouncement by the FASB.

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

2. Common Share Data:

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

	Quarters Ended	
	March 31,	2015
	2016	2015
Numerator:		
Net income	\$ 122.9	\$ 103.4
Numerator for basic earnings per share - income available to common stockholders	122.9	103.4
Adjustment for interest expense incurred on assumed conversion of convertible notes	3.6	3.6
Numerator for diluted earnings per share - income available to common stockholders after assumed conversion of convertible notes	\$ 126.6	\$ 107.0
Denominator:		
Denominator for basic earnings per share - weighted-average shares (a)	258,657,259	259,118,634
Effect of dilutive securities - stock based compensation awards	1,230,908	1,363,444
Effect of dilutive securities - convertible senior notes	35,654,960	36,565,145
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversion of convertible notes (a)	295,543,207	308,547,223
Earnings per share: Basic	\$.48	\$.40
Diluted	\$.43	\$.36
Anti-dilutive common stock equivalents excluded from earning per share computations:		
Stock based compensation awards	3,765,007	3,621,171
Convertible senior notes	—	—
Total	3,765,007	3,621,171

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

### 3. Investments:

The Company may classify its invested assets in terms of those assets relative to which it either (1) has the positive intent and ability to hold until maturity, (2) has available for sale or (3) has the intention of trading. As of March 31, 2016 and December 31, 2015, substantially all the Company's invested assets were classified as "available for sale."

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

The Company reviews the status and fair value changes of each of its investments on at least a quarterly basis during the year, and estimates of other-than-temporary impairments ("OTTI") in the portfolio's value are evaluated and established at each quarterly balance sheet date. In reviewing investments for OTTI, the Company, in addition to a security's market price history, considers the totality of such factors as the issuer's operating results, financial condition and liquidity, its ability to access capital markets, credit rating trends, most current audit opinion, industry and securities markets conditions, and analyst expectations to reach its conclusions. Sudden fair value declines caused by such adverse developments as newly emerged or imminent bankruptcy filings, issuer default on significant obligations, or reports of financial accounting developments that bring into question the validity of the issuer's previously reported earnings or financial condition, are recognized as realized losses as soon as credible publicly available information emerges to confirm such developments. Absent issuer-specific circumstances that would result in a contrary conclusion, any equity security with an unrealized investment loss amounting to a 20% or greater decline consecutively during a six month period is considered OTTI. In the event the Company's estimate of OTTI is insufficient at any point in time, future periods' net income (loss) would be adversely affected by the recognition of additional realized or impairment losses, but its financial position would not necessarily be affected adversely inasmuch as such losses, or a portion of them, could have been recognized previously as unrealized losses in shareholders' equity. The Company recognized no OTTI adjustments for the quarters ended March 31, 2016 and 2015.

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:				
March 31, 2016:				
Available for sale:				
U.S. & Canadian Governments	\$ 1,402.5	\$ 38.1	\$ .1	\$ 1,440.6
Corporate	6,751.2	255.2	113.8	6,892.6
	\$ 8,153.7	\$ 293.4	\$ 113.9	\$ 8,333.2
Held to maturity:				
Tax-exempt	\$ 511.3	\$ 10.9	\$ .5	\$ 521.6
December 31, 2015:				
Available for sale:				
U.S. & Canadian Governments	\$ 1,269.5	\$ 18.9	\$ 3.6	\$ 1,284.9
Corporate	6,879.9	166.8	150.2	6,896.5
	\$ 8,149.4	\$ 185.8	\$ 153.8	\$ 8,181.5
Held to maturity:				
Tax-exempt	\$ 355.8	\$ 4.0	\$ .1	\$ 359.7

	Amortized Cost	Estimated Fair Value
Fixed Maturity Securities Stratified by Contractual Maturity at March 31, 2016:		
Available for sale:		
Due in one year or less	\$ 752.3	\$ 759.1
Due after one year through five years	3,781.6	3,911.1
Due after five years through ten years	3,457.6	3,496.3
Due after ten years	162.1	166.5
	\$ 8,153.7	\$ 8,333.2
Held to maturity:		
Due in one year or less	\$ —	\$ —
Due after one year through five years	—	—
Due after five years through ten years	435.7	445.4
Due after ten years	75.5	76.1
	\$ 511.3	\$ 521.6

A summary of the Company's equity securities follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity Securities:				
March 31, 2016	\$ 1,849.4	\$ 341.1	\$ 59.0	\$ 2,131.6
December 31, 2015	\$ 1,826.4	\$ 266.7	\$ 105.3	\$ 1,987.8

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

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	12 Months or Less		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2016:						
Fixed Maturity Securities:						
U.S. & Canadian Governments	\$28.2	\$ —	\$26.8	\$ —	\$55.0	\$ .1
Tax-exempt	61.6	.5	—	—	61.6	.5
Corporate	827.2	51.3	348.1	62.4	1,175.3	113.8
Subtotal	917.1	51.9	374.9	62.5	1,292.1	114.4
Equity Securities	390.8	43.3	35.6	15.6	426.5	59.0
Total	\$1,308.0	\$ 95.2	\$410.5	\$ 78.2	\$1,718.6	\$ 173.4

December 31, 2015:

Fixed Maturity Securities:						
U.S. & Canadian Governments	\$363.3	\$ 2.8	\$59.2	\$ .7	\$422.6	\$ 3.6
Tax-exempt	49.5	.1	—	—	49.5	.1
Corporate	2,214.5	100.0	336.4	50.2	2,550.9	150.2
Subtotal	2,627.4	103.0	395.7	50.9	3,023.1	154.0
Equity Securities	502.1	87.3	31.3	17.9	533.4	105.3
Total	\$3,129.5	\$ 190.4	\$427.0	\$ 68.9	\$3,556.6	\$ 259.3

At March 31, 2016, the Company held 289 fixed maturity and 14 equity securities in an unrealized loss position, representing 16.1% (as to fixed maturities) and 16.3% (as to equity securities) of the total number of such issues it held. At December 31, 2015, the Company held 709 fixed maturity and 22 equity securities in an unrealized loss position, representing 39.2% (as to fixed maturities) and 23.9% (as to equity securities) of the total number of such issues it held. Of the securities in an unrealized loss position, 73 and 79 fixed maturity securities and 1 and 1 equity securities, had been in a continuous unrealized loss position for more than 12 months as of March 31, 2016 and December 31, 2015, respectively. The unrealized losses on these securities are primarily deemed to reflect changes in the interest rate environment and changes in fair values of fixed income and equity securities issued by participants in the extractive industries in particular. As part of its assessment of other-than-temporary impairments, the Company considers its intent to continue to hold, and the likelihood that it will not be required to sell investment securities in an unrealized loss position until cost recovery, principally on the basis of its asset and liability maturity matching procedures.

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

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

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

Level 1 securities include U.S. and Canadian Treasury notes, publicly traded common stocks, the quoted net asset value ("NAV") mutual funds, and most short-term investments in highly liquid money market instruments. Level 2 securities generally include corporate bonds, municipal bonds, and certain U.S. and Canadian government agency securities. Securities classified within Level 3 include non-publicly traded bonds and equity securities. There were no significant changes in the fair value of assets measured with the use of significant unobservable inputs as of March 31, 2016 and December 31, 2015.

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

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As of March 31, 2016:	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Available for sale:				
Fixed maturity securities:				
U.S. & Canadian Governments	\$742.3	\$698.3	\$ —	—\$1,440.6
Corporate	—	6,882.1	10.5	6,892.6
Equity securities	2,129.5	—	2.0	2,131.6
Short-term investments	650.3	—	—	650.3
Held to maturity:				
Fixed maturity securities:				
Tax-exempt	\$—	\$521.6	\$ —	—\$521.6
As of December 31, 2015:				
Available for sale:				
Fixed maturity securities:				
U.S. & Canadian Governments	\$606.6	\$678.2	\$ —	—\$1,284.9
Corporate	—	6,886.0	10.5	6,896.5
Equity securities	1,985.8	—	2.0	1,987.8
Short-term investments	669.4	—	—	669.4
Held to maturity:				
Fixed maturity securities:				
Tax-exempt	\$—	\$359.7	\$ —	—\$359.7

There were no transfers between Levels 1, 2 or 3 during the quarter ended March 31, 2016.

Investment income is reported net of allocated expenses and includes appropriate adjustments for amortization of premium and accretion of discount on fixed maturity securities acquired at other than par value. Dividends on equity securities are credited to income on the ex-dividend date. Realized investment gains and losses, which result from sales or write-downs of securities, are reflected as revenues in the income statement and are determined on the basis of amortized value at date of sale for fixed maturity securities, and cost in regard to equity securities; such bases apply to the specific securities sold. Unrealized investment gains and losses, net of any deferred income taxes, are recorded directly as a component of accumulated other comprehensive income in shareholders' equity. At March 31, 2016, the Company and its subsidiaries had no non-income producing fixed maturity securities.

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

	Quarters Ended	
	March 31,	
	2016	2015
Investment income from:		
Fixed maturity securities	\$75.1	\$73.6
Equity securities	20.9	17.8
Short-term investments	.5	.2
Other sources	.6	.6
Gross investment income	97.2	92.3
Investment expenses (a)	.9	.8
Net investment income	\$96.3	\$91.4
Realized gains (losses) on:		
Fixed maturity securities:		
Gains	\$2.4	\$3.3
Losses	(.1 )	(.3 )
Net	2.2	3.0
Equity securities:		
Gains	65.6	16.0
Losses	(23.8 )	—
Net	41.8	16.0
Other long-term investments, net	—	(.2 )
Total realized gains (losses)	44.1	18.8
Income taxes (credits)	15.4	6.6
Net realized gains (losses)	\$28.7	\$12.2
Changes in unrealized investment gains (losses) on:		
Fixed maturity securities	\$147.6	\$78.8
Less: Deferred income taxes (credits)	51.6	27.3
	96.0	51.4
Equity securities & other long-term investments	120.6	(23.8 )
Less: Deferred income taxes (credits)	42.2	(8.3 )
	78.4	(15.5 )
Net changes in unrealized investment gains (losses)	\$174.4	\$35.9

(a) Investment expenses consist of personnel costs and investment management and custody service fees, as well as immaterial amounts of interest incurred on funds held for the quarters ended March 31, 2016 and 2015.

#### 4. Employee Benefit Plans:

The Company has a pension plan (the Plan) covering a portion of its work force. 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 is closed to new participants and benefits were frozen as of December 31, 2013. As a result, eligible employees retain all of the vested rights as of the effective date of the freeze, while additional benefits no longer accrue. Plan assets are comprised principally of fixed maturity securities, common stocks and short-term investments. Cash contributions of \$- and \$1.8 were made to the pension plan in the first quarters of 2016 and 2015, respectively. No additional cash contributions are expected to be made in the remaining portion of calendar year 2016.

5. Information About Segments of Business:

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

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	Quarters	
	Ended	
	March 31,	
	2016	2015
<b>General Insurance:</b>		
Net premiums earned	\$718.9	\$703.3
Net investment income and other income	105.7	99.6
Total revenues before realized gains or losses	\$824.6	\$803.0
Income before taxes (credits) and realized investment gains or losses (a)	\$87.0	\$82.0
Income tax expense (credits) on above	\$26.8	\$26.2
<b>Title Insurance:</b>		
Net premiums earned	\$379.3	\$336.8
Title, escrow and other fees	94.8	91.4
Sub-total	474.1	428.3
Net investment income and other income	9.4	8.3
Total revenues before realized gains or losses	\$483.6	\$436.6
Income before taxes (credits) and realized investment gains or losses (a)	\$21.4	\$15.9
Income tax expense (credits) on above	\$7.5	\$5.6
<b>RFIG Run-off Business:</b>		
Net premiums earned	\$47.8	\$58.1
Net investment income and other income	5.9	6.3
Total revenues before realized gains or losses	\$53.7	\$64.4
Income before taxes (credits) and realized investment gains or losses	\$27.7	\$35.2
Income tax expense (credits) on above	\$9.6	\$12.2
<b>Consolidated Revenues:</b>		
Total revenues of above Company segments	\$1,362.0	\$1,304.1
Other sources (b)	28.3	28.3
Consolidated net realized investment gains (losses)	44.1	18.8
Consolidation elimination adjustments	(21.0 )	(21.1 )
Consolidated revenues	\$1,413.5	\$1,330.2
<b>Consolidated Income Before Taxes (Credits):</b>		
Total income before income taxes (credits) and realized investment gains or losses of above Company segments	\$136.2	\$133.2
Other sources - net (b)	1.9	1.6
Consolidated net realized investment gains (losses)	44.1	18.8
Consolidated income before income taxes (credits)	\$182.3	\$153.7
<b>Consolidated Income Tax Expense (Credits):</b>		
Total income tax expense (credits) for above Company segments	\$44.0	\$44.1

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Other sources - net (b)	(.1	) (.4	)
Income tax expense (credits) on consolidated net realized investment gains (losses)	15.4	6.6	
Consolidated income tax expense (credits)	\$59.3	\$50.3	

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	March 31, 2016	December 31, 2015
Consolidated Assets:		
General Insurance	\$ 14,818.5	\$ 14,523.0
Title Insurance	1,339.1	1,314.3
RFIG Run-off Business	987.4	978.7
Total assets for the above company segments	17,145.1	16,816.1
Other assets (b)	626.8	760.5
Consolidation elimination adjustments	(338.6 )	(475.0 )
Consolidated assets	\$ 17,433.3	\$ 17,101.6

Income before taxes (credits) is reported net of interest charges on intercompany financing arrangements with Old Republic's holding company parent for the following segments: General - \$12.1 and \$10.1 for the quarters ended (a) March 31, 2016 and 2015, respectively, and Title - \$2.1 and \$2.0 for the quarters ended March 31, 2016 and 2015, respectively.

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

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

On July 1, 2014, the NCDOI issued a Final Order approving an Amended and Restated Corrective Plan (the "Amended Plan") submitted jointly on April 16, 2014, by RMIC and RMICNC. Under the Amended Plan, RMIC and RMICNC were authorized to pay 100% of their DPOs accrued as of June 30, 2014 and to settle all subsequent valid claims entirely in cash, without establishing any DPOs. In anticipation of receiving this Final Order, ORI invested \$125.0 of cash and securities in RMIC during June 2014. In mid-July 2014, in furtherance of the Final Order, RMIC and RMICNC processed payments of their accumulated DPO balances of approximately \$657.0 relating to fully settled claims charged to periods extending between January 19, 2012 and June 30, 2014. Both subsidiaries remain under the supervision of the NCDOI as they continue to operate in run-off mode. The approval of the Amended Plan notwithstanding, the NCDOI retains its regulatory supervisory powers to review and amend the terms of the Amended Plan in the future as circumstances may warrant.

6. Commitments and Contingent Liabilities:

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

On December 19, 2008, Old Republic Insurance Company and Republic Insured Credit Services, Inc., ("Old Republic") filed suit against Countrywide Bank FSB, Countrywide Home Loans, Inc. ("Countrywide") and Bank of New York Mellon, BNY Mellon Trust of Delaware ("BNYM") in the Circuit Court, Cook County, Illinois (Old Republic Insurance Company, et al. v. Countrywide Bank FSB, et al.) seeking rescission of various credit indemnity policies issued to insure home equity loans and home equity lines of credit which Countrywide had securitized or held for its own account, a declaratory judgment and money damages based upon systemic material misrepresentations and fraud by Countrywide as to the credit characteristics of the loans or by the borrowers in their loan applications. Countrywide filed a counterclaim alleging a breach of contract, bad faith and seeking a declaratory judgment challenging the factual and procedural bases that Old Republic had relied upon to deny or rescind coverage for individual defaulted loans under those policies, as well as unspecified compensatory and punitive damages. The Court ruled that Countrywide does not have standing to counterclaim with respect to the policies insuring the securitized loans because those policies were issued to BNYM. In response, Countrywide and BNYM jointly filed a motion asking the Court to allow an amended counterclaim in which BNYM would raise substantially similar allegations as those raised by Countrywide and make substantially similar requests but with respect to the policies issued to BNYM. The Court dismissed their motion, with leave to re-plead the counterclaim. BNYM's subsequent attempt to re-plead was granted by the Court. No trial date has been set.

On December 31, 2009, two of the Company's mortgage insurance subsidiaries, Republic Mortgage Insurance Company and Republic Mortgage Insurance Company of North Carolina (together "RMIC") filed a Complaint for Declaratory Judgment in the Supreme Court of the State of New York, County of New York, against Countrywide Financial Corporation, Countrywide Home Loans, Inc., The Bank of New York Mellon Trust Company, N.A., BAC Home Loans Servicing, LP, and Bank of America N.A. as successor in interest to Countrywide Bank, N.A. (together "Countrywide")(Republic Mortgage Insurance Company, et al v. Countrywide Financial Corporation, et al). The suit relates to five mortgage insurance master policies (the "Policies") issued by RMIC to Countrywide or to the Bank of New York Mellon Trust Company as co-trustee for trusts containing securitized mortgage loans that were originated or purchased by Countrywide. RMIC has rescinded its mortgage insurance coverage on over 1,500 of the loans originally covered under the Policies based upon material misrepresentations of the borrowers in their loan applications or the negligence of Countrywide in its loan underwriting practices or procedures. Each of the coverage rescissions occurred after a borrower had defaulted and RMIC reviewed the claim and loan file submitted by Countrywide. The suit seeks the Court's review and interpretation of the Policies' incontestability provisions and its validation of RMIC's investigation procedures with respect to the claims and underlying loan files.

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

On May 16, 2013, Bank of America, N.A. ("B of A") filed a demand for arbitration with the American Arbitration Association against both Republic Mortgage Insurance Company and Republic Mortgage Insurance Company of North Carolina (together, "RMIC") under the arbitration provisions of the RMIC Master Policy of mortgage guaranty insurance issued to B of A. The demand relates to RMIC's denials of certain claims and rescissions of coverage as to other claims. B of A alleges RMIC's actions were in breach of contract, in breach of RMIC's duty of good faith and fair dealing and in bad faith. The allegations are substantially similar to those raised by B of A's affiliates, Countrywide Financial Corporation and Countrywide Home Loans, Inc. in their arbitration demand against RMIC. B of A is a plaintiff in that proceeding as well, in its capacity as successor in interest to Countrywide Bank, N.A. B of A's demand requests a declaratory judgment with respect to the interpretation of certain policy provisions, B of A's compliance with certain terms and conditions of the policy, and the propriety of certain coverage positions and claims administration procedures of RMIC. The demand also seeks unspecified money damages, punitive, compensatory and consequential damages, interest, attorneys' fees and costs.

On August 26, 2014, Bank of America, N.A. ("B of A") filed suit against both Republic Mortgage Insurance Company and Republic Mortgage Insurance Company of North Carolina (together, "RMIC") in the General Court of Justice, Superior Court Division for Mecklenburg County, North Carolina. The complaint arises in connection with a RMIC bulk mortgage guaranty insurance policy issued to B of A and several RMIC traditional primary mortgage guaranty insurance policies issued to correspondent lenders from whom B of A acquired loans or servicing rights on loans for which certificates of insurance were issued under such policies. The complaint relates to RMIC's denials and curtailments of certain claims and rescissions and cancellations of coverage as to other claims. B of A alleges RMIC's actions were in breach of contract, in breach of RMIC's duty of good faith and fair dealing and in bad faith. The allegations are substantially similar to those asserted by B of A in the May 16, 2013 American Arbitration Association arbitration demand against RMIC, and relate to loans that were dismissed from that proceeding. B of A's demand requests a declaratory judgment with respect to the interpretation of certain policy provisions, B of A's compliance with certain terms and conditions of the policy, and the propriety of certain coverage positions and claims administration procedures of RMIC. The demand also seeks money damages, punitive, compensatory and



consequential damages, interest, attorneys' fees and costs.

In late September, 2015, RMIC reached a preliminary claims settlement with Countrywide and B of A. The settlement is now final and all proceedings between the parties have been dismissed. Indemnity and litigation costs associated with the settlement are within established reserves.

On December 30, 2011 and on January 4, 2013, purported class action suits alleging RESPA violations were filed in the Federal District Court, for the Eastern District of Pennsylvania targeting RMIC, other mortgage guaranty insurance companies, PNC Financial Services Group (as successor to National City Bank) and HSBC Bank USA, N.A., and their wholly-owned captive insurance subsidiaries. (White, Hightower, et al. v. PNC Financial Services Group (as successor to National City Bank) et al.), (Ba, Chip, et al. v. HSBC Bank USA, N.A., et al.). The lawsuits are two of twelve against various lenders, their captive reinsurers and the mortgage insurers, filed by the same law firms. All of these lawsuits were substantially identical in alleging that the mortgage guaranty insurers had reinsurance arrangements with the defendant banks' captive insurance subsidiaries under which payments were made in violation of the anti-kickback and fee splitting prohibitions of Sections 8(a) and 8(b) of RESPA. Ten of the twelve suits have been dismissed. The remaining suits seek unspecified damages, costs, fees and the return of the allegedly improper payments. A class has not been certified in either suit and RMIC has filed motions to dismiss the cases.

On October 9, 2014, Intellectual Ventures I LLC and Intellectual Ventures II LLC (collectively, "IV") served a complaint naming as defendants Old Republic National Title Insurance Company, Old Republic Title Insurance Group, Inc., Old Republic Insurance Company and Old Republic General Insurance Group, Inc. (collectively, "Old Republic")(Intellectual Ventures I LLC et al. v. Old Republic General Insurance Group, Inc. et al.). The lawsuit is pending in the United States District Court for the Western District of Pennsylvania. IV alleges that Old Republic has infringed three patents and seeks damages, costs, expenses, and pre-judgment and post-judgment interest for the alleged infringement, in addition to injunctive relief. On October 14, 2014, Old Republic filed a motion to dismiss each count of the complaint on the grounds

that the patents fail to meet the patentability test established by the United States Supreme Court in *Alice Corp. Pty. Ltd. v. CLS Bank*, 134 S.Ct. 2347 (2014). The Court granted Old Republic's motion to dismiss on all three patents on September 25, 2015. Concurrently, Old Republic filed inter partes review petitions challenging validity of the patents before the United States Patent & Trademark Office ("USPTO") in late September and early October, 2015. In late October, 2015, IV filed notice of its appeal of the District Court's dismissal of its claims. The Patent and Trademark Appeal Board of the USPTO has accepted the petitions challenging the validity of all three patents and has until early April, 2017, to rule.

On January 20, 2015, Intellectual Ventures II LLC filed two complaints in the United States District Court for the Eastern District of Texas naming as defendants Great West Casualty Company and BITCO General Insurance Corporation and BITCO National Insurance Company. (*Intellectual Ventures II LLC v. Great West Casualty Company*) and (*Intellectual Ventures II LLC v. BITCO General Insurance Corporation et al.*) The plaintiff alleges a single patent infringement and seeks damages, costs, expenses, and pre-judgment and post-judgment interest in addition to injunctive relief. On April 9, 2015, plaintiff amended each complaint to allege a second patent infringement claim. The District Court set a trial date in September, 2016. In August and September, 2015, Great West and BITCO filed inter partes review petitions challenging validity of the patents before the United States Patent & Trademark Office. Both petitions have been accepted for review. The Patent and Trademark Appeal Board of the USPTO has until February 9, 2017, to rule on the validity challenge of one of the patents and until March 22, 2017, to rule on the other patent. The related lawsuits continue notwithstanding the commencement of the administrative proceedings.

Under GAAP, an estimated loss is accrued only if the loss is probable and reasonably estimable. The Company and its subsidiaries have defended and intend to continue defending vigorously against each of the aforementioned actions. The Company does not believe it probable that any of these actions will have a material adverse effect on its consolidated financial position, results of operations, or cash flows, though there can be no assurance in those regards. The Company has made an estimate of its potential liability under certain of these matters, all of which seek unquantified damages, attorneys' fees, and expenses. Because of the uncertainty of the ultimate outcomes of the aforementioned disputes, additional costs may arise in future periods beyond the Company's current reserves. It is also unclear what effect, if any, the run-off operations of RMIC and its limited capital will have in the actions against it.

## 7. Debt:

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

	March 31, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
3.75% Convertible Senior Notes due 2018	\$546.4	\$682.2	\$546.0	\$709.5
4.875% Senior Notes due 2024	395.2	423.8	395.1	404.6
ESSOP debt with an average yield of 3.93% and 3.69%, respectively	8.1	8.1	11.7	11.7
Other miscellaneous debt	32.4	32.5	—	—
Total debt	\$982.3	\$1,146.7	\$952.8	\$1,125.8

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

The Company completed a public offering of \$550.0 aggregate principal amount of Convertible Senior Notes in early March, 2011. The notes bear interest at a rate of 3.75% per year, mature on March 15, 2018, and are convertible at any

time prior to maturity by the holder into 64.3407 shares (subject to periodic adjustment under certain circumstances) of common stock per one thousand dollar note.

The Company's 3.75% Convertible Senior Notes and 4.875% Senior Notes ("the Notes") contain provisions defining certain events of default, among them a court ordered proceeding due to the insolvency of a Significant Subsidiary. The Notes define Significant Subsidiary in accordance with the paragraph (w) of Rule 1-02 of the SEC's Regulation S-X. The Company's flagship mortgage guaranty insurance carrier, RMIC, qualifies as a Significant Subsidiary for purposes of the Notes. If RMIC were to become statutorily impaired, its insolvency could trigger a receivership proceeding which, in turn could ultimately result in an event of default. If this were to occur, the outstanding principal of the Notes could become immediately due and payable. Management believes the Final Order by the North Carolina Department of Insurance to RMIC has precluded such an event of default from occurring in the foreseeable future. Moreover, RMIC was statutorily solvent at March 31, 2016 and management has every expectation that its solvent state is likely to prevail. RMIC is expected to be an increasingly less significant subsidiary over time as its in force business declines.

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

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

	Carrying Fair			
	Value	Value	Level 1	Level 2
				Level 3
Financial Liabilities:				
Debt:				
March 31, 2016	\$ 982.3	\$ 1,146.7	\$-1,106.1	\$40.6
December 31, 2015	\$ 952.8	\$ 1,125.8	\$-1,114.1	\$11.7

#### 8. Income Taxes:

Tax positions taken or expected to be taken in a tax return by the Company are recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. To the best of management's knowledge, there are no tax uncertainties that are expected to result in significant increases or decreases to unrecognized tax benefits within the next twelve month period. The Company views its income tax exposures as primarily consisting of timing differences whereby the ultimate deductibility of a taxable amount is highly certain but the timing of its deductibility is uncertain. Such differences relate principally to the timing of deductions for loss and premium reserves. As in prior examinations, the Internal Revenue Service ("IRS") could assert that claim reserve deductions were overstated thereby reducing the Company's statutory taxable income in any particular year. The Company believes that it establishes its reserves fairly and consistently at each balance sheet date, and that it would succeed in defending its tax position in these regards. Because of the impact of deferred tax accounting, the possible accelerated payment of tax to the IRS would not necessarily affect the annual effective tax rate. The Company classifies interest and penalties as income tax expense in the consolidated statement of income. The IRS is currently examining the Company's 2011 through 2013 consolidated Federal income tax returns, including amendments, relative to claims for recovery of income taxes previously paid.

OLD REPUBLIC INTERNATIONAL CORPORATION  
MANAGEMENT ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS  
Quarters Ended March 31, 2016 and 2015  
(\$ 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 through three major segments, namely, its General (property and liability), Title, and the RFIG (mortgage guaranty and consumer credit indemnity) Run-off Business. A small life and accident insurance business, accounting for .4% of consolidated operating revenues for the quarter ended March 31, 2016 and 1.0% of consolidated assets as of that date, is included within the corporate and other caption of this report.

The consolidated accounts are presented in conformity with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") of accounting principles generally accepted in the United States of America ("GAAP"). As a publicly held company, Old Republic utilizes GAAP largely to comply with the financial reporting requirements of the Securities and Exchange Commission ("SEC"). From time to time the FASB and the SEC issue various releases, most of which require additional financial statement disclosures and provide related application guidance. 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 2015 Annual Report on Form 10-K.

The insurance business is distinguished from most others in that the prices (premiums) charged for various insurance products are set without certainty of the ultimate benefit and claim costs that will emerge or be incurred, often many years after issuance and expiration of a policy. This basic fact casts Old Republic as a risk-taking enterprise managed for the long run. Management therefore conducts the business with a primary focus on achieving favorable underwriting results over cycles, and on the maintenance of financial soundness in support of the insurance subsidiaries' long-term obligations to insurance beneficiaries. To achieve these objectives, adherence to insurance risk management principles is stressed, and asset diversification and quality are emphasized.

In addition to income arising from Old Republic's basic underwriting and related services functions, significant investment income is earned from invested funds generated by those functions and from shareholders' capital. Investment management aims for stability of income from interest and dividends, protection of capital, and for sufficiency of liquidity to meet insurance underwriting and other obligations as they become payable in the future. Securities trading and the realization of capital gains are not objectives. The investment philosophy is therefore best characterized as emphasizing value, credit quality, and relatively long-term holding periods. The Company's ability to hold both fixed maturity and equity securities for long periods of time is in turn enabled by the scheduling of maturities in contemplation of an appropriate matching of assets and liabilities, and by investments in large capitalization equity securities with necessary market liquidity.

In light of the above factors, the Company's affairs are necessarily managed for the long run and without significant regard to the arbitrary strictures of quarterly or even annual reporting periods that American industry must observe. In Old Republic's view, such short reporting time frames do not comport well with the long-term nature of much of its business. Management believes that the Company's operating results and financial condition can best be evaluated by observing underwriting and overall operating performance trends over succeeding five 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, for premium rate changes to emerge in financial results, and for reserved claim costs to be quantified with greater finality and effect.

This management analysis should be read in conjunction with the consolidated financial statements and the footnotes appended to them.

## EXECUTIVE SUMMARY

Old Republic International Corporation reported better operating earnings for this year's first quarter. Excluding the RFIG run-off segment, pretax operating earnings were up 10.9% quarter-over-quarter as General and Title Insurance performance outpaced comparable results in 2015. A 21.3% drop in RFIG's earnings, however, drove consolidated pretax operating income down to an approximate 2.5% gain. In this context, all of this year's gain in pretax operating income emanated from higher investment income. Consolidated net income for this year's first quarter nonetheless advanced 18.9% as much greater gains were secured from sales of investment securities. The major components of consolidated results are summarized in the table below.

## Financial Highlights

	Quarters Ended	
	March 31,	
	2016	2015
Operating revenues:		
General insurance	\$824.6	\$803.0
Title insurance	483.6	436.6
Corporate and other	7.3	7.1
Subtotal	1,315.6	1,246.8
RFIG run-off business	53.7	64.4
Total	\$1,369.3	\$1,311.3
Pretax operating income (loss):		
General insurance	\$87.0	\$82.0
Title insurance	21.4	15.9
Corporate and other	1.9	1.6
Subtotal	110.4	99.6
RFIG run-off business	27.7	35.2
Total	138.1	134.8
Realized investment gains (losses):		
From sales	44.1	18.8
From impairments	—	—
Net realized investment gains (losses)	44.1	18.8
Consolidated pretax income (loss)	182.3	153.7
Income taxes (credits)	59.3	50.3
Net income (loss)	\$122.9	\$103.4
Components of diluted earnings per share:		
Net operating income (loss):		
General insurance	\$0.20	\$0.19
Title insurance	0.05	0.03
Corporate and other	0.02	0.02
Subtotal	0.27	0.24
RFIG run-off business	0.06	0.08
Total	0.33	0.32
Net realized investment gains (losses)	0.10	0.04
Net income (loss)	\$0.43	\$0.36
Cash dividends paid per share	\$0.1875	\$0.1850
Ending book value per share	\$16.00	\$15.48

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

The timing of realized investment gain or loss recognition can be highly discretionary due to such factors as individual securities sales, recording of estimated losses from write-downs of impaired securities, tax-planning considerations, and changes in investment management judgments relative to the direction of securities markets or the future prospects of individual investees or industry sectors. Since 2013, asset management operations have in part been oriented toward an enhancement of income from interest and dividends. To a large extent, this strategy has led to sales of non-income producing or low-yielding securities. Proceeds from these sales have largely been reinvested in higher yielding common shares of American companies with distinguished long-term records of earnings and dividend growth.



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

	General Insurance Group		
	Quarters Ended March 31,		
	2016	2015	Change
Net premiums earned	\$718.9	\$703.3	2.2 %
Net investment income	78.6	73.7	6.6
Other income	27.1	25.8	4.7
Operating revenues	824.6	803.0	2.7
Benefits and claim costs	524.9	518.8	1.2
Sales and general expenses	199.0	190.9	4.2
Interest and other costs	13.6	11.1	22.1
Total operating expenses	737.5	720.9	2.3
Pretax operating income (loss)(*)	\$87.0	\$82.0	6.2 %
Claim ratio	73.0%	73.8%	
Expense ratio	23.9	23.5	
Composite underwriting ratio	96.9%	97.3%	

(\*) In connection with the run-off mortgage guaranty ("MI") and consumer credit indemnity ("CCI") combination, \$5.9 and \$4.3 of pretax operating losses for the first quarter 2016 and 2015, respectively, are retained by certain general insurance companies pursuant to various quota share and stop loss reinsurance agreements. All of these amounts, however, have been reclassified such that 100% of the CCI run-off business is reported in the RFIG run-off segment.

This year's 6.2% pretax earnings gain was largely due to 6.6% growth of investment income. Underwriting and related services produced basically flat operating income as evidenced by the relatively unchanged composite ratio for the two quarterly periods.

Net premiums earned slowed to 2.2% growth from the combination of: 1) high single digit increases mostly experienced in commercial automobile (trucking) and home protection coverages, 2) declining volume in a large account construction book of business due to a very competitive rate environment, and 3) relatively flat top line comparisons prevailing for most other coverages.

The ratio of claim and related settlement costs to earned premiums was relatively flat in this year's first quarter when compared with the same period of 2015. In addition to estimates of current claim costs, the ratios for the respective first quarters of 2016 and 2015 are inclusive of 0.3 and 1.1 percentage point additions emanating from unfavorable developments of prior years' reserves.

Quarterly claim ratio postings and the trends they display are not particularly meaningful in Old Republic's liability insurance oriented mix of business. In this regard, however, it is nonetheless anticipated that the most recent years' and quarterly periods' general uptrends in such ratios should abate and gradually revert to targeted long-term annual averages in the high 60%*s* to low 70%*s*.

Title Insurance Results - Earnings for this year's first quarter continued along the positive path set in recent years.

	Title Insurance Group		
	Quarters Ended March 31,		
	2016	2015	Change

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Net premiums and fees earned	\$474.1	\$428.3	10.7 %
Net investment income	9.0	7.9	14.1
Other income	0.3	0.3	N/A
Operating revenues	483.6	436.6	10.7
Claim costs	24.3	23.8	2.3
Sales and general expenses	435.7	394.7	10.4
Interest and other costs	2.0	2.1	(3.0 )
Total operating expenses	462.1	420.7	9.9
Pretax operating income (loss)	\$21.4	\$15.9	34.3 %
Claim ratio	5.1 %	5.6 %	
Expense ratio	91.8	92.1	
Composite underwriting ratio	96.9%	97.7%	

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The continuation of a favorable mortgage rate environment and improving housing and commercial property markets led to higher revenues from title premiums and fees in this year's first quarter. The improvement was achieved in spite of the adverse effect that recently implemented mortgage disclosure rules are having on the consummation of real estate transactions.

The latest quarter's pretax operating income ended higher as both claim costs and operating expenses were relatively stable. While a smaller component of overall title profitability, net investment income also rose as it benefitted from moderately higher yields on a larger bond and stock portfolio.

RFIG Run-off Business Results - The tables below show the operating components of this run-off book of business and their contributions to combined results.

	RFIG Run-off Business Quarters Ended March 31,		
	2016	2015	Change
<b>A. MI:</b>			
Net premiums earned	\$44.3	\$52.6	(15.7)%
Net investment income	5.6	6.1	(7.6 )
Claim costs	10.6	13.5	(21.5)
Pretax operating income (loss)	\$34.1	\$40.0	(14.8)%
Claim ratio	24.1%	25.8%	
Expense ratio	11.9	9.8	
Composite underwriting ratio	36.0%	35.6%	
<b>B. CCI(*):</b>			
Net premiums earned	\$3.4	\$5.4	(37.3)%
Net investment income	0.2	0.1	30.8
Benefits and claim costs	9.4	9.9	(4.9 )
Pretax operating income (loss)	\$(6.3)	\$(4.7)	(32.8)%
Claim ratio	275.3%	181.7%	
Expense ratio	17.1	9.3	
Composite underwriting ratio	292.4%	191.0%	
<b>C. Total MI and CCI run-off business:</b>			
Net premiums earned	\$47.8	\$58.1	(17.7)%
Net investment income	5.9	6.3	(6.4 )
Benefits and claim costs	20.1	23.5	(14.5)
Pretax operating income (loss)	\$27.7	\$35.2	(21.3)%
Claim ratio	42.2%	40.5%	
Expense ratio	12.3	9.7	
Composite underwriting ratio	54.5%	50.2%	

(\*) In connection with the run-off MI and CCI combination, \$5.9 and \$4.3 of pretax operating losses for the first quarter 2016 and 2015, respectively, are retained by certain general insurance companies pursuant to various quota share and stop loss reinsurance agreements. All of these amounts, however, have been reclassified and are included for segment reporting purposes such that section (B) in the above table incorporates 100% of the CCI run-off business results.

Consistent with a run-off operating mode, further declines in earned premiums were posted by the MI and CCI lines. Investment income for MI was also lower as reduced premium volume and ongoing claim payments effected

downward pressure on the invested asset base.

Quarter-over-quarter, the MI claim ratio was relatively flat. The lower ratios for both periods are attributable to continued declines in reported delinquencies and higher rates at which reported defaults are cured or otherwise resolved without payment. Moreover, favorable developments of previously established claim reserves contributed to a lowering of claim ratios by 39.2 and 80.6 percentage points in the first three months of 2016 and 2015, respectively.

The much smaller CCI run-off line reflected great volatility in year-to-year comparisons of incurred claim ratios. Substantially all of this resulted from the fluctuating premium trends in a small book of business on the one hand and changes in estimates of litigation costs on the other hand.

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

	Corporate and Other Operations			
	Quarters Ended March 31,			
	2016	2015	Change	
Net premiums earned	\$4.8	\$4.6	3.5	%
Net investment income	2.6	3.3	(20.8)	)
Other income	(0.1)	(0.8)	84.3	
Operating revenues	7.3	7.1	2.6	
Benefits and claim costs	4.5	3.8	18.1	
Insurance expenses	2.2	2.2	2.0	
Corporate, interest, and other expenses-net	(1.4)	(0.5)	(158.7)	
Total operating expenses	5.4	5.5	(2.3)	)
Pretax operating income (loss)	\$1.9	\$1.6	19.5	%

Consolidated Results - The combination of all of the above changes and occurrences in Old Republic's business segments contributed to the following consolidated results:

	ORI Consolidated			
	Quarters Ended March 31,			
	2016	2015	Change	
Net premiums and fees earned	\$1,245.7	\$1,194.4	4.3	%
Net investment income	96.3	91.4	5.3	
Other income	27.3	25.4	7.4	
Operating revenues	1,369.3	1,311.3	4.4	
Benefits and claim costs	574.0	570.1	0.7	
Sales and general expenses	646.3	595.7	8.5	
Interest and other costs	10.7	10.5	2.1	
Total operating expenses	1,231.1	1,176.4	4.7	
Pretax operating income (loss)	138.1	134.8	2.5	
Income taxes (credits)	43.9	43.6	0.5	
Net operating income (loss)	94.2	91.1	3.4	
Realized investment gains (losses)	44.1			