

OLD REPUBLIC INTERNATIONAL CORP  
Form 10-Q  
October 31, 2008

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, 2008 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  
(State or other jurisdiction of  
incorporation or organization)

No. 36-2678171  
(IRS Employer Identification No.)

307 North Michigan Avenue, Chicago,  
Illinois  
(Address of principal executive office)

60601  
(Zip Code)

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

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 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
Common Stock / \$1 par value	September 30, 2008
	230,753,860

There are 36 pages in this report

OLD REPUBLIC INTERNATIONAL CORPORATION

Report on Form 10-Q / September 30, 2008

INDEX

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	PAGE NO.
PART I FINANCIAL INFORMATION:	
CONSOLIDATED BALANCE SHEETS	3
CONSOLIDATED STATEMENTS OF INCOME	4
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	5
CONSOLIDATED STATEMENTS OF CASH FLOWS	6
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	7 – 11
MANAGEMENT ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS	12 – 32
QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK	33
CONTROLS AND PROCEDURES	33
PART II OTHER INFORMATION:	
ITEM 1 – LEGAL PROCEEDINGS	34
ITEM 1A – RISK FACTORS	34
ITEM 6 – EXHIBITS	34
SIGNATURE	35
EXHIBIT INDEX	36

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

	(Unaudited) September 30, 2008	December 31, 2007
<b>Assets</b>		
Investments:		
Available for sale:		
Fixed maturity securities (at fair value) (adjusted cost: \$7,381.1 and \$7,312.2)	\$ 7,285.6	\$ 7,383.6
Equity securities (at fair value) (adjusted cost: \$404.4 and \$807.3)	484.1	842.1
Short-term investments (at fair value which approximates cost)	729.1	462.6
Miscellaneous investments	32.4	64.7
Total	8,531.3	8,753.1
Other investments	8.2	8.1
Total investments	8,539.6	8,761.2
Other Assets:		
Cash	86.5	54.0
Securities and indebtedness of related parties	29.1	15.3
Accrued investment income	107.6	108.7
Accounts and notes receivable	838.8	880.3
Federal income tax recoverable: Current	9.5	6.2
Prepaid federal income taxes	501.3	536.5
Reinsurance balances and funds held	70.9	69.9
Reinsurance recoverable: Paid losses	61.8	65.8
Policy and claim reserves	2,372.5	2,193.4
Deferred policy acquisition costs	234.3	246.5
Sundry assets	351.4	352.3
	4,664.2	4,529.3
Total Assets	\$ 13,203.8	\$ 13,290.6
<b>Liabilities, Preferred Stock, and Common Shareholders' Equity</b>		
Liabilities:		
Losses, claims, and settlement expenses	\$ 7,025.6	\$ 6,231.1
Unearned premiums	1,176.3	1,182.2
Other policyholders' benefits and funds	183.7	190.2
Total policy liabilities and accruals	8,385.6	7,603.5
Commissions, expenses, fees, and taxes	213.7	225.9
Reinsurance balances and funds	293.5	288.7
Federal income tax payable: Deferred	118.7	417.7
Debt	124.1	64.1
Sundry liabilities	153.6	148.8
Commitments and contingent liabilities		
Total Liabilities	9,289.5	8,749.0

## Preferred Stock:

Convertible preferred stock (1)	-	-
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## Common Shareholders' Equity:

Common stock (1)	230.7	232.0
Additional paid-in capital	329.7	344.4
Retained earnings	3,353.0	3,900.1
Accumulated other comprehensive income	.7	93.3
Treasury stock (at cost)(1)	-	(28.3)
Total Common Shareholders' Equity	3,914.3	4,541.6
Total Liabilities, Preferred Stock and Common Shareholders' Equity	\$ 13,203.8	\$ 13,290.6

(1) At September 30, 2008 and December 31, 2007, 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 230,753,860 at September 30, 2008 and 232,038,331 at December 31, 2007 were issued. At September 30, 2008 and December 31, 2007, there were 100,000,000 shares of Class B Common Stock, \$1.00 par value, authorized, of which no shares were issued. Common shares classified as treasury stock were 0 and 1,566,100 as of September 30, 2008 and December 31, 2007, respectively.

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 September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
<b>Revenues:</b>				
Net premiums earned	\$ 784.7	\$ 870.1	\$ 2,372.5	\$ 2,537.4
Title, escrow, and other fees	50.4	50.9	144.9	166.7
Total premiums and fees	835.2	921.1	2,517.5	2,704.2
Net investment income	93.8	95.1	282.3	280.4
Other income	7.2	9.6	24.6	31.1
Total operating revenues	936.3	1,025.9	2,824.5	3,015.7
<b>Realized investment gains (losses):</b>				
From sales	18.3	3.9	26.0	20.3
From impairments	(11.5)	-	(448.9)	-
Total realized investment gains (losses)	6.7	3.9	(422.8)	20.3
Total revenues	943.1	1,029.8	2,401.6	3,036.0
<b>Benefits, Claims and Expenses:</b>				
Benefits, claims, and settlement expenses	679.1	609.9	2,005.2	1,496.3
Dividends to policyholders	4.0	1.9	11.9	6.9
Underwriting, acquisition, and other expenses	333.2	381.8	1,014.1	1,168.8
Interest and other charges	-	1.1	1.4	6.0
Total expenses	1,016.5	994.8	3,032.8	2,678.1
Income (loss) before income taxes (credits)	(73.4)	35.0	(631.1)	357.9
<b>Income Taxes (Credits):</b>				
Current	13.5	44.8	51.8	133.0
Deferred	(38.9)	(39.0)	(251.2)	(27.2)
Total	(25.3)	5.8	(199.3)	105.7
Net Income (Loss)	\$ (48.0)	\$ 29.2	\$ (431.8)	\$ 252.1
<b>Net Income (Loss) Per Share:</b>				
Basic:	\$ (.21)	\$ .13	\$ (1.87)	\$ 1.09
Diluted:	\$ (.21)	\$ .12	\$ (1.87)	\$ 1.08
<b>Average shares outstanding:</b>				
Basic	230,735,600	231,014,468	230,716,219	231,627,204
Diluted	230,735,600	232,298,642	230,716,219	233,448,109
<b>Dividends Per Common Share:</b>				
Cash	\$ .17	\$ .16	\$ .50	\$ .47

See accompanying Notes to Consolidated Financial Statements.

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net income (loss) as reported	\$ (48.0)	\$ 29.2	\$ (431.8)	\$ 252.1
Other comprehensive income (loss):				
Unrealized gains (losses) on securities:				
Unrealized gains (losses) arising during period	(80.7)	106.5	(554.0)	75.9
Less: elimination of pretax realized gains (losses) included in income (loss) as reported	6.7	3.9	(422.8)	20.3
Pretax unrealized gains (losses) on securities				
carried at market value	(87.5)	102.5	(131.2)	55.6
Deferred income taxes (credits)	(30.6)	35.8	(45.9)	19.4
Net unrealized gains (losses) on securities	(56.8)	66.6	(85.2)	36.2
Other adjustments	(2.7)	7.9	(7.2)	20.2
Net adjustments	(59.6)	74.5	(92.5)	56.4
Comprehensive income (loss)	\$ (107.6)	\$ 103.8	\$ (524.3)	\$ 308.6



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,	
	2008	2007
Cash flows from operating activities:		
Net income (loss)	\$ (431.8)	\$ 252.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred policy acquisition costs	11.3	13.7
Premiums and other receivables	41.5	26.4
Unpaid claims and related items	612.1	400.7
Other policyholders' benefits and funds	(8.3)	20.7
Income taxes	(254.6)	(1.9)
Prepaid federal income taxes	35.2	(68.1)
Reinsurance balances and funds	7.9	(8.9)
Realized investment (gains) losses	422.8	(20.3)
Accounts payable, accrued expenses and other	31.3	28.3
Total	467.6	642.7
Cash flows from investing activities:		
Fixed maturity securities:		
Maturities and early calls	631.0	537.6
Sales	72.4	27.0
Sales of:		
Equity securities	79.2	73.3
Other - net	42.7	13.0
Purchases of:		
Fixed maturity securities	(814.7)	(986.7)
Equity securities	(96.9)	(123.8)
Other - net	(26.4)	(19.9)
Purchase of a business	(4.3)	(4.3)
Net decrease (increase) in short-term investments	(267.0)	30.3
Other-net	(.4)	(.8)
Total	(384.5)	(454.2)
Cash flows from financing activities:		
Issuance of debentures and notes	93.0	81.3
Issuance of common shares	3.0	14.0
Redemption of debentures and notes	(33.1)	(131.3)
Dividends on common shares	(115.2)	(108.5)
Purchase of treasury shares	-	(28.3)
Other-net	1.9	3.3
Total	(50.5)	(169.5)
Increase (decrease) in cash:	32.5	18.9
Cash, beginning of period	54.0	71.6

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Cash, end of period		\$	86.5	\$	90.5
Supplemental cash flow information:					
Cash paid during the	Interest				
period for:		\$	2.0	\$	5.6
	Income taxes	\$	54.9	\$	107.2

See accompanying Notes to Consolidated Financial Statements.

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

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1. Accounting Policies and Basis of Presentation:

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") as described in the Company's latest annual report to shareholders or otherwise disclosed herein. The financial accounting and reporting process relies on estimates and on the exercise of judgment, but in the opinion of management all adjustments, consisting only of normal recurring accruals, necessary for a fair statement of the results were 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.

The Financial Accounting Standards Board's ("FASB") Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48") became effective for the Company in the first quarter of 2007. FIN 48 provides recognition criteria and a related measurement model for uncertain tax positions taken or expected to be taken in income tax returns. FIN 48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. The Company's unrecognized tax benefits, including interest and penalty accruals, are not considered material to the consolidated financial statements and have not changed significantly upon the adoption of FIN 48. 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 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 under GAAP, other than possible interest and penalties which are classified as income tax expense, the possible accelerated payment of tax to the IRS would not affect the annual effective tax rate. The Company's consolidated Federal income tax returns through year-end 2004 are closed and no significant adjustments have resulted. On October 22, 2008 the IRS commenced their examination of the Company's 2006 consolidated income tax return.

The Company's adoption of Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("FAS 157"), is discussed in Note 3 of the Notes to Consolidated Financial Statements.

The adoption of FIN 48 and FAS 157 result in additional financial statement disclosures for GAAP reporting purposes and has no effect on the conduct of the Company's business, its financial condition and results of operations.

## 2. Common Share Data:

Earnings Per Share - The following table provides a reconciliation of the income and number of shares used in basic and diluted earnings per share calculations.

		Quarters Ended September 30,		Nine Months Ended September 30,	
		2008	2007	2008	2007
Numerator:					
Net Income					
(loss)		\$ (48.0)	\$ 29.2	\$ (431.8)	\$ 252.1
Numerator for basic earnings per share -					
income (loss) available to common					
stockholders		(48.0)	29.2	(431.8)	252.1
Numerator for diluted earnings per share					
-					
income (loss) available to common					
stockholders					
after assumed					
conversions		\$ (48.0)	\$ 29.2	\$ (431.8)	\$ 252.1
Denominator:					
Denominator for basic earnings per					
share -					
Weighted-average shares					
(a)		230,735,600	231,014,468	230,716,219	231,627,204
Effect of dilutive securities – stock					
options		-	1,284,174	-	1,820,905
Denominator for diluted earnings per					
share -					
adjusted weighted-average shares					
and assumed conversions (a)		230,735,600	232,298,642	230,716,219	233,448,109
Earnings per					
share:					
Basic		\$ (.21)	\$ .13	\$ (1.87)	\$ 1.09
Diluted		\$ (.21)	\$ .12	\$ (1.87)	\$ 1.08
Anti-dilutive outstanding stock option					
awards					
excluded from earning per share					
computations		15,284,846	6,773,862	15,284,846	3,847,875

(a) All per share statistics have been restated to reflect all stock dividends and splits declared through September 30, 2008.

## 3 Investments:

Effective January 1, 2008, the Company adopted FAS 157, Fair Value Measurements, which establishes a framework for measuring fair value, and applies to existing accounting pronouncements that require or permit fair value measurements. 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). The adoption of FAS 157 has had no impact on the Company’s consolidated financial statements. Following is a description of the valuation methodologies used for securities measured at fair value, as well as the general classification of such securities pursuant to the valuation hierarchy.

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 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 using 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 market value.

Level 1 securities include U.S. and Canadian Treasury notes, publicly traded common stocks, net asset value (“NAV”) quoted mutual funds and a substantial portion of its short-term investments in highly liquid money market instruments and U.S. and Canadian Treasury bills. 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, short-term investments and common stocks. There were no significant changes in the fair value of assets measured with the use of significant unobservable inputs during the nine months ended September 30, 2008.

The following table shows a summary of assets measured at fair value segregated among the various input levels required by FAS 157:

	Fair value measurements as of September 30, 2008:			
	Level 1	Level 2	Level 3	Total
Available for sale:				
Fixed maturity securities	\$ 277.4	\$ 6,997.6	\$ 10.5	\$ 7,285.6
Equity securities	440.2	.1	43.7	484.1
Short-term investments	721.9	-	7.1	729.1

Net unrealized gains (losses) on investments amounted to \$(6.2) at September 30, 2008. Unrealized appreciation (depreciation) of investments, before applicable deferred income taxes (credits) of \$(3.5) at September 30, 2008 included gross unrealized gains (losses) of \$159.8 and \$(169.6) respectively. For the nine months ended September 30, 2008 and 2007, changes in net unrealized appreciation (depreciation) of investments, net of deferred income taxes (credits), amounted to \$(85.2) and \$36.2, respectively. The amount of unrealized gains and losses is affected by the Company's estimates of securities that have been classified as other-than-temporarily impaired ("OTTI").

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

Realized investment gains (losses) included \$11.5 and \$448.9 of write downs for other-than-temporary declines in the estimated fair value of investments for the quarter and nine months ended September 30, 2008, respectively. There were no write downs for other-than-temporary declines in the estimated fair value of investments for the quarter and nine months ended September 30, 2007.

A valuation allowance of \$42.0 (equivalent to a charge of \$.18 per outstanding share) was established against a deferred tax asset related to the Company's realized losses on investments at September 30, 2008. In valuing the deferred tax asset, the Company considered certain factors including primarily the scheduled reversals of certain deferred tax liabilities and the impact of available carryback and carryforward periods. Based on these considerations, the Company believes that it is more likely than not that it will realize the benefits of the deferred tax assets related to realized losses, net of the existing valuation allowance at September 30, 2008.

#### 4. Pension Plans:

The Company has three defined benefit pension plans covering a portion of its work force. All three plans have been closed to new participants since December 31, 2004. It is the Company's policy to fund the plans' costs as they accrue. Plan assets are comprised principally of bonds, common stocks and short-term investments. The Companies made cash contributions of approximately \$.7 and \$2.9 to their pension plans in the quarter and nine months ended September 30, 2008, respectively, and expect to make cash contributions of approximately \$1.1 to their pension plans in the fourth quarter of 2008.

## 5. Information About Segments of Business:

The Company is engaged in the single business of insurance underwriting. It conducts its operations through a number of regulated insurance company subsidiaries organized into three major segments, namely its General Insurance (property and liability insurance), Mortgage Guaranty and Title Insurance Groups. The results of a small life & health insurance business are included with those of its corporate and minor service 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 as these are aggregated in the consolidated totals. The contributions of Old Republic's insurance industry segments to consolidated totals are shown in the following table.

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
<b>General Insurance Group:</b>				
Net premiums earned	\$ 500.3	\$ 549.5	\$ 1,507.4	\$ 1,611.4
Net investment income and other income	65.3	70.0	201.2	210.1
Total revenues before realized gains or losses	\$ 565.7	\$ 619.5	\$ 1,708.7	\$ 1,821.5
Income (loss) before income taxes (credits) and realized investment gains or losses (a)	\$ 77.0	\$ 112.7	\$ 223.2	\$ 324.5
Income tax expense (credits) on above	\$ 22.0	\$ 34.6	\$ 63.3	\$ 98.9
<b>Mortgage Guaranty Group:</b>				
Net premiums earned	\$ 148.4	\$ 133.9	\$ 445.2	\$ 377.0
Net investment income and other income	24.4	23.0	73.7	66.4
Total revenues before realized gains or losses	\$ 172.8	\$ 157.0	\$ 518.9	\$ 443.4
Income (loss) before income taxes (credits) and realized investment gains or losses	\$ (152.8)	\$ (83.0)	\$ (415.9)	\$ 2.1
Income tax expense (credits) on above	\$ (54.8)	\$ (30.3)	\$ (149.7)	\$ (3.0)
<b>Title Insurance Group:</b>				
Net premiums earned	\$ 117.9	\$ 168.1	\$ 357.1	\$ 491.9
Title, escrow and other fees	50.4	50.9	144.9	166.7
Sub-total	168.4	219.1	502.1	658.7
Net investment income and other income	6.3	7.0	19.1	21.2
Total revenues before realized gains or losses	\$ 174.7	\$ 226.1	\$ 521.2	\$ 679.9
Income (loss) before income taxes (credits) and realized investment gains or losses (a)	\$ (9.7)	\$ (3.3)	\$ (27.0)	\$ 1.0
Income tax expense (credits) on above	\$ (3.8)	\$ (1.4)	\$ (10.6)	\$ (.8)
<b>Consolidated Revenues:</b>				
Total revenues of above Company segments	\$ 913.3	\$ 1,002.8	\$ 2,748.8	\$ 2,945.0
Other sources (b)	30.6	31.4	99.7	96.5
Consolidated net realized investment gains (losses)	6.7	3.9	(422.8)	20.3
Consolidation elimination adjustments	(7.6)	(8.3)	(24.1)	(25.8)
Consolidated revenues	\$ 943.1	\$ 1,029.8	\$ 2,401.6	\$ 3,036.0
<b>Consolidated Income (Loss) Before Taxes (Credits):</b>				
Total income (loss) before income taxes (credits)	\$ (85.5)	\$ 26.4	\$ (219.7)	\$ 327.7



and realized investment gains or losses of  
above Company segments

Other sources – net (b)	5.3	4.6	11.4	9.9
Consolidated net realized investment gains (losses)	6.7	3.9	(422.8)	20.3
Consolidated income (loss)				
before income taxes (credits)	\$ (73.4)	\$ 35.0	\$ (631.1)	\$ 357.9

Consolidated Income Tax Expense (Credits):

Total income tax expense (credits)				
for above Company segments	\$ (36.6)	\$ 2.7	\$ (97.0)	\$ 95.1
Other sources – net (b)	1.8	1.6	3.6	3.5
Income tax expense (credits) on				
consolidated net realized investment gains (losses)	9.4	1.3	(105.9)	7.1
Consolidated income tax expense (credits)	\$ (25.3)	\$ 5.8	\$ (199.3)	\$ 105.7

	September 2008	December 2007
Consolidated Assets:		
General	\$ 9,622.7	\$ 9,769.9
Mortgage	2,753.0	2,523.8
Title	741.8	770.4
Other assets (b)	444.5	437.9
Consolidation elimination adjustments	(358.3)	(211.5)
Consolidated	\$ 13,203.8	\$ 13,290.6

In the above tables, net premiums earned on a GAAP basis differ slightly from statutory amounts due to certain differences in calculations of unearned premium reserves under each accounting method.

- (a) Income (loss) 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 - \$3.5 and \$10.3 compared to \$3.4 and \$11.7 for the quarter and nine months ending September 30, 2008 and 2007, respectively; Title - \$.5 and \$1.8 compared to \$.6 and \$1.5 for the quarter and nine months ending September 30, 2008 and 2007, respectively.
- (b) Represents amounts for Old Republic's holding company parent, minor corporate services subsidiaries, and a small life and health insurance operation.

#### 6. Commitments and Contingent Liabilities:

Legal proceedings against the Company 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 legal proceedings are discussed below.

Purported class action lawsuits are pending against the Company's principal title insurance subsidiary, Old Republic National Title Insurance Company ("ORNTIC") in state and federal courts in Connecticut, New Jersey, Ohio, Pennsylvania and Texas. The plaintiffs allege that ORNTIC failed to give consumers reissue and/or refinance credits on the premiums charged for title insurance covering mortgage refinancing transactions, as required by rate schedules filed by ORNTIC or by state rating bureaus with the state insurance regulatory authorities. In none of the actions against ORNTIC has a class yet been certified. Substantially similar lawsuits are also pending against other unaffiliated title insurance companies in these and other states as well, and additional lawsuits based upon similar allegations could be filed against ORNTIC in the future.

Since early February 2008, more than 75 purported consumer class action lawsuits have been filed nationwide against the title industry's principal title insurance companies, their subsidiaries and affiliates, and title insurance rating bureaus or associations in at least 10 states. The suits are substantially identical in alleging that the defendant title insurers engaged in illegal price-fixing agreements to set artificially high premium rates and conspired to create premium rates which the state insurance regulatory authorities could not evaluate and therefore, could not adequately regulate. A number of the suits also allege violations of the federal Real Estate Settlement Procedures Act ("RESPA"). The Company and its principal title insurance subsidiary, Old Republic National Title Insurance Company, are currently among the named defendants in 34 of these actions in 5 states, and are likely to be included in others. A second subsidiary, American Guaranty Title Insurance Company, is also named in most but not all of the same suits. No class has yet been certified.

Also pending certification as a class action is a suit against ORNTIC and Old Republic Title, Ltd. in the U.S. District Court for the Western District of Washington. Filed in May, 2008, the suit alleges that ORNTIC and its affiliate

deceptively charged fees for reconveyancing services they did not perform and split the fees with settlement service providers in violation of RESPA. The action seeks damages, declaratory and injunctive relief. No class has yet been certified in the action.

At their present stage, the impact of these lawsuits, all of which seek unquantified damages, attorneys' fees and expenses, is uncertain and not reasonably estimable. The Company and its subsidiaries intend to defend vigorously against each of the aforementioned actions. Although the Company does not believe that these lawsuits will have a material adverse effect on its consolidated financial condition, results of operations or cash flows, there can be no assurance in those regards.

ORNTIC and Old Republic Title Company succeeded in having the Superior Court of Washington, King County, dismiss a previously disclosed lawsuit alleging that they had overcharged customers for escrow related fees and failed to disclose the interest or earnings credits realized on moneys deposited into escrow. The plaintiffs in that suit chose not to appeal the decision. ORNTIC also settled the previously disclosed suit brought by and on behalf of Hispanic home buyers in Monterey County, California, for an immaterial amount.

OLD REPUBLIC INTERNATIONAL CORPORATION  
MANAGEMENT ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS  
Nine Months Ended September 30, 2008 and 2007  
(\$ in Millions, Except Share Data)

OVERVIEW

This management analysis of financial position and results of operations pertains to the consolidated accounts of Old Republic International Corporation (“Old Republic” or “the Company”). The Company conducts its operations through three major regulatory segments, namely, its General (property and liability), Mortgage Guaranty, and Title insurance segments. A small life and health insurance business, accounting for 2.4% of consolidated operating revenues for the nine months ended September 30, 2008 and 2.0% of consolidated assets as of September 30, 2008, is included within the corporate and other caption of this financial report. The consolidated accounts are presented on the basis of generally accepted accounting principles (“GAAP”). This management analysis should be read in conjunction with the consolidated financial statements and the footnotes appended to them.

The insurance business is distinguished from most others in that the prices (premiums) charged for various insurance coverages are set without certainty of the ultimate benefit and claim costs that will emerge or be incurred, often many years after issuance and expiration of a policy. This basic fact casts Old Republic as a risk-taking enterprise managed for the long run. Management therefore conducts the business with a primary focus on achieving favorable underwriting results over cycles, and on the maintenance of financial soundness in support of the insurance subsidiaries’ long-term obligations to insurance beneficiaries. To achieve these objectives, adherence to insurance risk management principles is stressed, and asset diversification and quality are emphasized. In addition to income arising from Old Republic’s basic underwriting and related services functions, significant investment income is earned from invested funds generated by those functions and from shareholders’ capital. Investment management aims for stability of income from interest and dividends, protection of capital, and sufficient liquidity to meet insurance underwriting and other obligations as they become payable in the future. Securities trading and the realization of capital gains are not objectives. The investment philosophy is therefore best characterized as emphasizing value, credit quality, and relatively long-term holding periods. The Company’s ability to hold both fixed maturity and equity securities for long periods of time is in turn enabled by the scheduling of maturities in contemplation of an appropriate matching of assets and liabilities.

In light of the above factors, the Company’s affairs are managed without regard to the arbitrary strictures of quarterly or even annual reporting periods that American industry must observe. In Old Republic’s view, such short reporting time frames do not comport well with the long-term nature of much of its business. Management believes that the Company’s operating results and financial condition can best be evaluated by observing underwriting and overall operating performance trends over succeeding five to ten year intervals. Such extended periods can encompass one or two economic and/or underwriting cycles, and thereby provide appropriate time frames for such cycles to run their course and for reserved claim costs to be quantified with greater finality and effect.

EXECUTIVE SUMMARY

Old Republic’s consolidated operating results, which exclude net realized investment gains or losses, continued to decline in this year’s third quarter and first nine months. The much reduced performance stemmed from significant weakness in the Company’s housing-related mortgage guaranty and title insurance lines in particular. Management currently believes that the substantial dislocations that have enveloped all businesses with housing and mortgage-lending exposures are likely to exert negative pressures on earnings well into 2009. These lowered

expectations aside, the Company's strong financial underpinnings and the overall earnings sustainability of its general insurance business should provide reasonable earnings support and capital management flexibility for the anticipated resumption of positive operating earnings trends in 2010 and beyond.

The year-over-year decline in book value per share is mostly due to the shortfall in earnings, to cash outlays for regular dividends to shareholders, and to lower market valuations of fixed maturity and equity investments.

Consolidated Results – The major components of Old Republic’s consolidated results for the periods reported upon are shown below:

	Quarters Ended September 30,			Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Operating revenues:						
General insurance	\$ 565.7	\$ 619.5	-8.7%	\$ 1,708.7	\$ 1,821.5	-6.2%
Mortgage guaranty	172.8	157.0	10.1	518.9	443.4	17.0
Title insurance	174.7	226.1	-22.8	521.2	679.9	-23.3
Corporate and other	23.0	23.1		75.6	70.7	
Total	\$ 936.3	\$ 1,025.9	-8.7%	\$ 2,824.5	\$ 3,015.7	-6.3%
Pretax operating income (loss):						
General insurance	\$ 77.0	\$ 112.7	-31.7%	\$ 223.2	\$ 324.5	-31.2%
Mortgage guaranty	(152.8)	(83.0)	-84.1	(415.9)	2.1	N/M
Title insurance	(9.7)	(3.3)	-191.9	(27.0)	1.0	N/M
Corporate and other	5.3	4.6		11.4	9.9	
Sub-total	(80.1)	31.0	-357.8	(208.3)	337.6	-161.7
Realized investment gains (losses):						
From sales	18.3	3.9		26.0	20.3	
From impairments	(11.5)	-		(448.9)	-	
Net realized investment gains (losses)	6.7	3.9		(422.8)	20.3	
Consolidated pretax income (loss)	(73.4)	35.0	-309.3	(631.1)	357.9	-276.3
Income taxes (credits)	(25.3)	5.8	-537.0	(199.3)	105.7	-288.4
Net income (loss)	\$ (48.0)	\$ 29.2	-264.1%	\$ (431.8)	\$ 252.1	-271.2%
Consolidated underwriting ratio:						
Benefits and claims ratio	81.8%	66.4%		80.1%	55.6%	
Expense ratio	38.8	40.2		39.0	41.7	
Composite ratio	120.6%	106.6%		119.1%	97.3%	
Components of diluted earnings per share:						
Net operating income (loss)	\$ (0.20)	\$ 0.11	-281.8%	\$ (0.50)	\$ 1.02	-149.0%
Net realized investment gains (losses)	(0.01)	0.01		(1.37)	0.06	
Net income (loss)	\$ (0.21)	\$ 0.12	-275.0%	\$ (1.87)	\$ 1.08	-273.1%

N/M = not meaningful

The above table shows both operating and net income to highlight the effects of realized investment gain or loss recognition and any non-recurring items on period-to-period comparisons. Operating income, however, does not replace net income computed in accordance with Generally Accepted Accounting Principles (“GAAP”) as a measure of total profitability.

The recognition of realized investment gains or losses can be highly discretionary and arbitrary due to such factors as the timing of individual securities sales, recognition of estimated losses from write-downs for impaired securities, tax-planning considerations, and changes in investment management judgments relative to the direction of securities

markets or the future prospects of individual investees or industry sectors. Likewise, non-recurring items which may emerge from time to time, can distort the comparability of the Company's results from period to period. Accordingly, management uses net operating income, a non-GAAP financial measure, to evaluate and better explain operating performance, and believes its use enhances an understanding of Old Republic's basic business results.

General Insurance Results – General insurance operating income for the first nine months of 2008 was affected mainly by moderately lower earned premiums and the higher claim ratios shown in the following table:

General Insurance Group						
	Quarters Ended September 30,			Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Net premiums earned	\$ 500.3	\$ 549.5	-8.9%	\$ 1,507.4	\$ 1,611.4	-6.5%
Net investment income	61.9	65.3	-5.2	189.1	192.8	-1.9
Pretax operating income	\$ 77.0	\$ 112.7	-31.7%	\$ 223.2	\$ 324.5	-31.2%
Claims ratio	72.5%	67.7%		72.8%	66.5%	
Expense ratio	23.8	23.0		24.2	24.5	
Composite ratio	96.3%	90.7%		97.0%	91.0%	

Year-to-date earned premiums trended lower as a moderately declining rate environment for most commercial insurance prices in the past three years or so has hindered retention of some business and precluded meaningful additions to Old Republic's premium base. For this year's first nine months, the slightly lower top line was accompanied by the above noted rise in claim ratios; these compare to an average of 66.8% for the five most recent calendar years. This year's higher claim ratio is attributable to the combination of greater loss costs for most insurance coverages and to the cumulative effect of softening premium rates. The higher loss costs were most accentuated for Old Republic's consumer credit indemnity, commercial multi-peril, and general aviation coverages.

Underwriting and other expenses have remained under good overall control; the resulting expense ratios compare favorably year over year and with the average of 24.8% for the five years through 2007.

Mortgage Guaranty Results – Claim costs continued to rise due to higher mortgage loan delinquencies, and claim frequency and severity. These higher costs were offset to some extent by strong premium revenue gains during this year's first half in particular. However, pretax operating results were unprofitable for the fifth consecutive quarter. Key indicators of this cyclical reversal in profitability for Old Republic's second largest business segment are shown below and in the accompanying statistical exhibit.

Mortgage Guaranty Group						
	Quarters Ended September 30,			Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Net premiums earned	\$ 148.4	\$ 133.9	10.8%	\$ 445.2	\$ 377.0	18.1%
Net investment income	22.0	19.9	10.2	65.0	57.9	12.1
Pretax operating income (loss)	\$ (152.8)	\$ (83.0)	-84.1%	\$ (415.9)	\$ 2.1	N/M
Claims ratio	203.1%	161.9%		192.3%	96.4%	
Expense ratio	14.8	15.0		15.8	18.4	
Composite ratio	217.9%	176.9%		208.1%	114.8%	

Mortgage guaranty premium growth in this year's first nine months was mostly due to a 20.0% increase in traditional primary risk in force since September 2007. This increase stems from rising new insurance writings during the second half of 2007 and first half of 2008 as a result of greater market acceptance of traditional primary coverage and from higher business persistency (81.4% on an annualized basis as of September 2008 versus 76.6% through the same month end of 2007.)

The unprecedented cyclical downturn in housing and related mortgage finance industries contributed to the above noted offsetting impact of higher claim costs. Such costs reflect the combination of unfavorable loan default trends,



greater claim severity caused by the larger insured loan values of recent years, and lessened opportunities to mitigate reported claims. Inflated inventories of unsold homes, weakening home values, and a more restrictive credit environment are main causes for the reduced mitigation opportunities, though greater numbers of submitted claims are being rescinded due to detected frauds and material deviations from required underwriting standards.

The disparity between paid and incurred loss ratios shown in the above table stems from much greater claim reserve provisions which accounted for 118.4 loss ratio points in this year's third quarter, compared to 117.8 loss ratio points in the same quarter of 2007. For the first nine months, claim reserve provisions produced increases of 125.7 and 57.4 loss ratio points in 2008 and 2007, respectively. For all of 2007 reserve increases accounted for 76.3 points of that year's loss ratio of 118.8%. As of September 30, 2008, net claim reserves of \$1.20 billion were approximately 158.5% higher than they were twelve months earlier, and 86.7% greater than the amount posted at year end 2007.

The lower production and operating expense ratios for this year's third quarter and first nine months continued to be a bright spot in operating trends as greater premium volume has not been accompanied by a corresponding increase in fixed operating costs. The beneficial effect of the relatively lower expense ratio, however, was fully offset by the more severe impact of the higher claim ratio.

In combination, the above-cited factors produced a continuing uptrend in the composite underwriting ratios. Underlining the extreme severity of the current cyclical downturn in the housing and mortgage lending fields, this year's nine month composite ratio of 208.1% compares with an average of 74.0% registered during the five years ended December 31, 2007.

Underwriting results notwithstanding, Old Republic's Mortgage Guaranty segment continued to post strong operating cash flows. These have been additive to a high quality and liquid invested asset base which reached \$1.95 billion as of September 30, 2008, up 14.4% from the level registered one year earlier. The greater invested asset base was mainly responsible for the investment income growth posted in the periods reported upon.

Title Insurance Results – Old Republic's title insurance business registered an operating loss for each of this year's quarters. Key operating performance indicators are shown in the following table:

	Title Insurance Group					
	Quarters Ended September 30,			Nine Months Ended September 30,		
	2008	2007	Change	2008	2007	Change
Net premiums and fees earned	\$ 168.4	\$ 219.1	-23.1%	\$ 502.1	\$ 658.7	-23.8%
Net investment income	6.2	6.7	-6.9	19.1	20.2	-5.8
Pretax operating income (loss)	\$ (9.7)	\$ (3.3)	-191.9%	\$ (27.0)	\$ 1.0	N/M
Claims ratio	7.0%	6.8%		7.0%	6.4%	
Expense ratio	102.2	97.5		102.0	96.3	
Composite ratio	109.2%	104.3%		109.0%	102.7%	

The ongoing cyclical downturn in the housing and related mortgage lending sectors of the U.S. economy also led to year-over-year reductions of premium and fee revenues for the Company's Title segment. Direct production facilities in the Western United States continued to sustain the most significant bottom line adverse effects of this downturn. Claim ratios in 2008 have trended up slightly as they did for all of 2007. While overall 2008 production and operating expenses have dropped significantly, the decline continues to be insufficient to counter the much larger reduction in title premium and fees revenues.

Corporate and Other Operations – The Company's small life and health insurance business and the net costs associated with the parent holding company and internal services subsidiaries produced net operating gains in this year's first nine months. Period-to-period earnings variations for these relatively minor elements of Old Republic's operations usually stem from the volatility inherent to the small scale of its life and health business, fluctuations in the costs of external debt, and net interest on intra-system financing arrangements.

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

	September 2008	December 2007	September 2007	% Change		Sept '08/ Sept '07	
				Sept '08/ Dec '07			
Cash and invested assets - at fair value	\$ 8,733.7	\$ 8,924.0	\$ 8,762.4	-2.1	%	-0.3	%
Cash and invested assets - at original cost	\$ 9,143.3	\$ 8,802.5	\$ 8,604.4	3.9	%	6.3	%
Shareholders' equity:							
Total	\$ 3,914.3	\$ 4,541.6	\$ 4,563.9	-13.8	%	-14.2	%
Per common share	\$ 16.96	\$ 19.71	\$ 19.81	-14.0	%	-14.4	%

## Composition of shareholders' equity per share:

Equity before items below	\$ 16.96	\$ 19.31	\$ 19.37	-12.2	%	-12.4	%
Unrealized investment gains or losses and other accumulated comprehensive income	-	0.40	0.44				
Total	\$ 16.96	\$ 19.71	\$ 19.81	-14.0	%	-14.4	%

Consolidated cash flow from operating activities amounted to \$467.6 for the first nine months of 2008 versus \$642.7 for the same period in 2007.

The investment portfolio reflects a current allocation of approximately 85% to fixed-maturity securities and 6% to equities. As has been the case for many years, Old Republic's invested assets are managed in consideration of enterprise-wide risk management objectives intended to assure solid funding of its subsidiaries' long-term obligations to insurance policyholders and other beneficiaries, as well as evaluations of their long-term effect on stability of capital accounts. The portfolio contains little or no insurance risk-correlated asset exposures to real estate, mortgage-backed securities, collateralized debt obligations ("CDO's"), derivatives, junk bonds, or illiquid private equity investments. In a similar vein, the Company does not engage in hedging transactions or securities lending operations, nor does it invest in securities whose values are predicated on non-regulated financial instruments exhibiting amorphous counter-party risk attributes.

Substantially all changes in the shareholders' equity account reflect the Company's net income or loss, dividend payments to shareholders, and changes in market valuations of invested assets for the periods reported upon. A summary of all changes in book value per share follows:

	Shareholders' Equity Per Share		
	Quarter Ended September 30, 2008	Nine Months Ended September 30, 2008	Fiscal Twelve Months Ended September 30, 2008
Beginning book value per share	\$ 17.59	\$ 19.71	\$ 19.81
Changes in shareholders' equity for the periods:			
Net operating income (loss)	(0.20)	(0.50)	(0.55)
Net realized investment gains (losses):			
From sales	0.05	0.07	0.21
From impairments	(0.06)	(1.44)	(1.44)
Subtotal	(0.01)	(1.37)	(1.23)
Net unrealized investment gains (losses)	(0.25)	(0.37)	(0.48)
Total realized and unrealized investment gains (losses)	(0.26)	(1.74)	(1.71)
Cash dividends	(0.17)	(0.50)	(0.66)
Stock issuance, foreign exchange, and other transactions	-	(0.01)	0.07
Net change	(0.63)	(2.75)	(2.85)
Ending book value per share	\$ 16.96	\$ 16.96	\$ 16.96

As indicated in the table below, Old Republic's significant investments in the stocks of two leading publicly held mortgage guaranty businesses (MGIC Investment Corp. and The PMI Group) and that of a national title insurer (LandAmerica Financial Group) account for a substantial portion of the investment losses reflected in the preceding summary. Unrealized losses, including such losses as are categorized as other-than-temporarily impaired ("OTTI") represent the net difference between the most recently established cost and the quarter-end market values of the investments. These three significant investments account for approximately 85% of the total net investment losses from impairments sustained by the Company in 2008. The aggregate cost, market value, and latest underlying equity values reported by the three investees, are shown below.

	Values of Three Significant Investments		
	September 30, 2008	As of June 30, 2008	December 31, 2007
Total value of the threeOriginal cost investments:	\$ 512.9	\$ 509.8	\$ 435.7
Impaired cost	132.0	128.9	N/A
Market value	159.0	128.9	383.6
Underlying equity(*)	\$ 668.6	\$ 680.7	\$ 699.6

(\*) Underlying equity based on latest reports (usually lagging by one quarter) issued by investees.

When making investment decisions, management considers the Company's ability to retain its holdings for a period sufficient to recover their cost and to obtain a competitive long-term total return. It also considers such factors as balance sheet effects of potential changes in market valuations, asset-liability matching objectives, long term ability to hold securities, tax planning considerations, and the investees' reported book values and ability to continue as going

concerns. The three above-noted holdings were acquired as passive long-term investment additions to two core segments of Old Republic's business. In management's judgment, the currently negative market valuations of companies operating in the housing and mortgage-lending sectors of the American economy have been impacted significantly by the cyclical macroeconomic conditions affecting these sectors and by the recently dysfunctional banking and mortgage lending industries.

For external GAAP reporting purposes, however, Old Republic uses a simplistic mark to market valuation process and relatively short time frames in making periodic OTTI adjustments in its income statement. In this context, absent issuer-specific circumstances that would result in a contrary conclusion, all unrealized investment losses pertaining to any equity security reflecting a 20% or greater decline for a six month period are included in the determination of net income. Unrealized losses that are deemed temporary and all unrealized gains are recorded directly as a separate component of the shareholders' equity account and in the consolidated statement of comprehensive income. As a result of accounting idiosyncrasies, however, OTTI losses recorded in the income statement of one period can not be offset in the income statement of a subsequent period by market value gains on the previously impaired securities unless the gains are realized through actual sales. Such unrealized market value gains can only be recognized through direct credits in the shareholders' equity account and the consolidated statement of comprehensive income.

## DETAILED MANAGEMENT ANALYSIS

### 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 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, and financial condition.

Old Republic believes that its most critical accounting estimates relate to: a) the determination of other-than-temporary impairments in the value of fixed maturity and equity investments; b) the establishment of deferred acquisition costs which vary directly with the production of insurance premiums; c) the recoverability of reinsured paid and/or outstanding losses; and d) 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 2007 Annual Report on Form 10K.

In July 2006, the Financial Accounting Standards Board ("FASB") issued its Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"), which became effective for the Company in the first quarter of 2007. FIN 48 provides recognition criteria and a related measurement model for uncertain tax positions taken or expected to be taken in income tax returns. FIN 48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. The Company's unrecognized tax benefits, including interest and penalty accruals, are not considered material to the consolidated financial statements and did not change significantly upon the adoption of FIN 48. 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. As indicated in Note 1 of the Notes to Consolidated Financial Statements, the Company believes that the major uncertainties relating to its tax position pertain to timing differences in the recognition of taxable income. Accordingly, the annual effective tax rate, other than possible interest and penalties, would be largely unaffected as an increase in currently due income taxes would likely be offset by a corresponding deferred income tax adjustment.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 Fair Value Measurements ("FAS 157"), which establishes a framework for measuring fair value. FAS 157 applies to existing accounting pronouncements that require or permit fair value measurements, and became effective for the Company in the first quarter of 2008. Disclosure requirements associated with the standard have been incorporated in Note 3 of the Notes to Consolidated Financial Statements.

The adoption of FIN 48 and FAS 157 result in additional financial statement disclosures for GAAP reporting purposes and has no effect on the conduct of the Company's business, its financial condition and results of operations.

### FINANCIAL POSITION

The Company's financial position at September 30, 2008 reflected decreases in assets and common shareholders' equity of .7%, and 13.8%, respectively, and increased liabilities of 6.2% when compared to the immediately preceding year-end. Cash and invested assets represented 66.1% and 67.1% of consolidated assets as of September 30, 2008 and December 31, 2007, respectively. Consolidated operating cash flow was positive at \$467.6 in the first nine months of 2008 compared to \$642.7 in the same period of 2007. As of September 30, 2008, invested assets decreased 2.5% to \$8,539.6 principally as a result of a net decline in the market valuation of such assets.

Investments - During the first nine months of 2008 and 2007, the Company committed most investable funds to short to intermediate-term fixed maturity securities. At both September 30, 2008 and 2007, 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. Investable funds have not been directed to so-called "junk bonds", illiquid private equity investments, real estate, mortgage loans, mortgage-backed securities, collateralized debt obligations ("CDO's"), or derivatives. In a similar vein, the Company does not invest in securities whose values are predicated on non-regulated financial instruments exhibiting amorphous counter-party risk attributes. At September 30, 2008, the Company had fixed maturity investments with an amortized cost of \$13.1 in default as to principal and/or interest.

Relatively high short-term maturity investment positions continued to be maintained as of September 30, 2008. Such positions reflect a large variety of seasonal and intermediate-term factors including current operating needs, expected operating cash flows, quarter-end cash flow seasonality, 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 market value of the Company's long-term fixed maturity investment portfolio is sensitive, however, to fluctuations in the level of interest rates, but not materially affected by changes in anticipated cash flows caused by any prepayments. The impact of interest rate movements on the long-term fixed maturity investment portfolio generally affects net unrealized gains or losses. As a general rule, rising interest rates enhance currently available yields but typically lead to a reduction in the fair value of existing fixed maturity investments. By contrast, a decline in such rates reduces currently available yields but usually serves to increase the fair value of the existing fixed maturity investment portfolio. All such changes in fair value are reflected, net of deferred income taxes, directly in the shareholders' equity account, and as a separate component of the statement of comprehensive income. Given the Company's inability to forecast or control the movement of interest rates, Old Republic sets the maturity spectrum of its fixed maturity securities portfolio within parameters of estimated liability payouts, and focuses the overall portfolio on high quality investments. By so doing, Old Republic believes it is reasonably assured of its ability to hold securities to maturity as it may deem necessary in changing environments, and of ultimately recovering their aggregate cost.

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



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

Credit Quality Ratings of Fixed Maturity Securities (a)

	September 2008	December 2007
Aaa	20.5%	32.9%
Aa	25.1	17.0
A	31.8	27.9
Baa	20.6	20.2
Total investment grade	98.0	98.0
All other (b)	2.0	2.0
Total	100.0%	100.0%

(a) Credit quality ratings used are those assigned primarily by Moody's; other ratings are assigned by Standard & Poor's and converted to equivalent Moody's ratings classifications.

(b) "All other" includes non-investment grade or non-rated small issues of tax-exempt bonds.

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

	September 30, 2008	
	Amortized Cost	Gross Unrealized Losses
Fixed Maturity Securities by Industry Concentration:		
Services	\$ 39.3	\$ 8.8
Consumer Durables	37.3	5.4
Financial	13.8	4.1
Retail	17.1	1.9
Other (includes 5 industry groups)	24.5	1.6
Total	\$ 132.2(c)	\$ 22.0

(c) Represents 1.8% of the total fixed maturity securities portfolio.

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

	September 30, 2008	
	Amortized Cost	Gross Unrealized Losses
Fixed Maturity Securities by Industry Concentration:		
Banking	\$ 296.2	\$ 32.1
Utilities	590.3	21.9
Financial	221.0	15.8

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Municipals	1,001.7	13.2
Other (includes 17 industry groups)	1,758.7	56.6
Total	\$ 3,868.1(d)	\$ 139.7

(d) Represents 52.4% of the total fixed maturity securities portfolio.

Gross Unrealized Losses Stratified by Industry Concentration for Equity Securities

	September 30, 2008	
	Cost	Gross Unrealized Losses
Equity Securities by Industry Concentration:		
Index Funds	\$ 112.8	\$ 4.4
Insurance	5.9	.4
Utilities	6.8	-
Total	\$ 125.5(e)	\$ 4.8(f)

(e) Represents 31.1% of the total equity securities portfolio.

(f) Represents 1.2% of the cost of the total equity securities portfolio, while gross unrealized gains represent 20.9% of the portfolio.

## Gross Unrealized Losses Stratified by Maturity Ranges For All Fixed Maturity Securities

September 30, 2008					
	Amortized Costs of Fixed Maturity Securities		Gross Unrealized Losses		
	All	Non- Investment Grade Only	All	Non- Investment Grade Only	
Maturity Ranges:					
Due in one year or less	\$ 506.6	\$ 33.2	\$ 9.6	\$ .6	
Due after one year through five years	1,658.6	83.7	67.0	16.5	
Due after five years through ten years	1,814.6	15.2	83.9	4.8	
Due after ten years	20.4	-	1.2	-	
Total	\$ 4,000.4	\$ 132.2	\$ 161.8	\$ 22.0	

## Gross Unrealized Losses Stratified by Duration and Amount of Unrealized Losses

September 30, 2008					
	Amount of Gross Unrealized Losses			Total Gross Unrealized Loss	
	Less than 20% of Cost	20% to 50% of Cost	More than 50% of Cost		
Number of Months in Loss Position:					
Fixed Maturity Securities:					
One to six months	\$ 78.3	\$ 5.4	\$ -	\$ 83.8	
Seven to twelve months	4.0	1.9	3.3	9.3	
More than twelve months	39.6	23.2	5.7	68.6	
Total	\$ 122.0	\$ 30.7	\$ 9.0	\$ 161.8	
Equity Securities:					
One to six months	\$ 4.8	\$ -	\$ -	\$ 4.8	
Seven to twelve months	-	-	-	-	
More than twelve months	-	-	-	-	
Total	\$ 4.8	\$ -	\$ -	\$ 4.8	
Number of Issues in Loss Position:					
Fixed Maturity Securities:					
One to six months	851	6	-	857	
Seven to twelve months	12	2	1	15	
More than twelve months	131	12	3	146	
Total	994	20	4	1,018(g)	
Equity Securities:					
One to six months	4	-	-	4	
Seven to twelve months	-	-	-	-	
More than twelve months	-	-	1	1	
Total	4	-	1	5(g)	

(g) At September 30, 2008 the number of issues in an unrealized loss position represent 51.6% as to fixed maturities, and 29.4% as to equity securities of the total number of such issues held by the Company.

The aging of issues with unrealized losses employs closing market price comparisons with an issue's adjusted cost. The percentage reduction from adjusted cost reflects the decline as of a specific point in time (September 30, 2008 in the previous table) and, accordingly, is not indicative of a security's value having been consistently below its cost at the percentages and throughout the periods shown.

## Age Distribution of Fixed Maturity Securities

	September 30, 2008	December 31, 2007
<b>Maturity Ranges:</b>		
Due in one year or less	14.0%	11.7%
Due after one year through five years	51.1	46.8
Due after five years through ten years	34.7	41.1
Due after ten years through fifteen years	.2	.4
Due after fifteen years	-	-
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Average Maturity in Years</b>	<b>4.2</b>	<b>4.4</b>
<b>Duration (h)</b>	<b>3.6</b>	<b>3.8</b>

(h) Duration is used as a measure of bond price sensitivity to interest rate changes. A duration of 3.6 as of September 30, 2008 implies that a 100 basis point parallel increase in interest rates from current levels would result in a possible decline in the market value of the long-term fixed maturity investment portfolio of approximately 3.6%.

## Composition of Unrealized Gains (Losses)

	September 30, 2008	December 31, 2007
<b>Fixed Maturity Securities:</b>		
Amortized cost	\$ 7,381.1	\$ 7,312.2
Estimated fair value	7,285.6	7,383.6
Gross unrealized gains	66.3	106.9
Gross unrealized losses	(161.8)	(35.6)
Net unrealized gains (losses)	\$ (95.5)	\$ 71.3
<b>Equity Securities:</b>		
Original cost	\$ 792.6	\$ 807.3
Impaired cost	404.4	N/A
Estimated fair value	484.1	842.1
Gross unrealized gains	84.6	115.1
Gross unrealized losses	(4.8)	(80.4)
Net unrealized gains (losses)	\$ 79.7	\$ 34.7

Other Assets - Among other major assets, substantially all of the Company's receivables are not past due. Reinsurance recoverable balances on paid or estimated unpaid losses are deemed recoverable from solvent reinsurers or have otherwise been reduced by allowances for estimated amounts unrecoverable. Deferred policy acquisition costs are estimated by taking into account the variable costs of producing specific types of insurance policies, and evaluating their recoverability on the basis of recent trends in claims costs. 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 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 \$414.7 in dividends from its subsidiaries in 2008 without the prior approval of regulatory authorities. The liquidity achievable through such permitted dividend payments is more than adequate to cover the parent holding company's currently expected cash outflows represented mostly by interest and scheduled repayments on outstanding debt, quarterly cash dividend payments to shareholders, modest operating expenses at the holding company, and the near-term capital needs of its operating company subsidiaries. In addition, Old Republic can currently access the commercial paper market for up to \$265.0 to meet unanticipated liquidity needs of which \$120.0 was outstanding at September 30, 2008.

**Capitalization** - Old Republic's total capitalization of \$4,038.4 at September 30, 2008 consisted of debt of \$124.1 and common shareholders' equity of \$3,914.3. Changes in the common shareholders' equity account reflect primarily operating results for the period then ended, dividend payments, and changes in market valuations of invested assets. Old Republic has paid cash dividends to its shareholders without interruption since 1942, and has increased the regular annual rate in each of the past 27 years. The annual dividend rate is typically reviewed and approved by the Board of Directors in the first quarter of 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 six most recent calendar years, and management's long-term expectations for the Company's consolidated business. At its February, 2008 meeting, the Board of Directors approved a new quarterly cash dividend rate of 17 cents per share effective in the second quarter of 2008, up from 16 cents per share, subject to the usual quarterly authorizations.

The Company's mortgage guaranty statutory insurance company subsidiaries are limited by state regulation to operate with a risk to capital ratio not to exceed 25:1. Despite the significant operating losses experienced by the Company's mortgage guaranty segment over the past 15 months, the risk to capital ratio at September 30, 2008 is 16.1:1. The Company continuously monitors the key leverage and capital adequacy ratios of all its operating subsidiaries.

## RESULTS OF OPERATIONS

### Revenues: Premiums & Fees

Pursuant to GAAP applicable to the insurance industry, revenues are associated with the related benefits, claims, and expenses.

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

The Company's mortgage guaranty premiums primarily stem from monthly installment policies. Accordingly, substantially all such premiums are generally written and earned in the month coverage is effective. With respect to annual or single premium policies, earned premiums are largely recognized on a pro-rata basis over the terms of the policies.

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 36% of 2008 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 64% of consolidated title premium and fee revenues is produced by independent title agents and underwritten title companies. Rather than making estimates that could be subject to significant variance from actual premium and fee production, the Company recognizes revenues from those sources upon receipt. Such receipts can reflect a three to four month lag relative to the effective date of the underlying title policy, and are offset concurrently by production expenses and claim reserve provisions.

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

Earned Premiums and Fees						% Change from prior period
	General	Mortgage	Title	Other	Total	
Years Ended December 31:						
2005	\$ 1,805.2	\$ 429.5	\$ 1,081.8	\$ 70.3	\$ 3,386.9	8.7 %
2006	1,902.1	444.3	980.0	74.1	3,400.5	.4
2007	2,155.1	518.2	850.7	77.0	3,601.2	5.9
Nine Months Ended September 30:						

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2007	1,611.4	377.0	658.7	57.0	2,704.2	5.6
2008	1,507.4	445.2	502.1	62.7	2,517.5	-6.9
Quarters Ended September 30:						
2007	549.5	133.9	219.1	18.6	921.1	6.0
2008	\$ 500.3	\$ 148.4	\$ 168.4	\$ 18.0	\$ 835.2	-9.3 %



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

	General Insurance Earned Premiums by Type of Coverage					
	Commercial Automobile (mostly trucking)	Workers' Compensation	Financial Indemnity	Inland Marine and Property	General Liability	Other
Years Ended December 31:						
2005	39.1%	21.9%	10.3%	11.0%	5.4%	12.3%
2006	39.6	21.7	11.0	10.7	5.1	11.9
2007	35.0	23.5	13.8	9.3	7.8	10.6
Nine Months Ended September 30:						
2007	35.0	23.5	13.6	9.1	7.8	11.0
2008	34.5	21.1	16.0	9.6	7.7	11.1
Quarters Ended September 30:						
2007	34.0	21.8	16.2	8.9	7.8	11.3
2008	34.8%	20.8%	15.7%	9.3%	7.4%	12.0%

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

#### Mortgage Guaranty Production by Type

New Insurance Written: Years Ended December 31:	Traditional			Total
	Primary	Bulk	Other	
2005	\$ 20,554.5	\$ 9,944.3	\$ 498.2	\$ 30,997.1
2006	17,187.0	13,716.7	583.7	31,487.5
2007	31,841.7	10,800.3	901.6	43,543.7
Nine Months Ended September 30:				
2007	21,174.3	10,667.5	443.9	32,285.7
2008	18,171.6	3.5	1,096.2	19,271.4
Quarters Ended September 30:				
2007	9,398.8	2,180.5	197.1	11,776.5
2008	\$ 4,318.6	\$ -	\$ 383.6	\$ 4,702.2

New Risk Written by Type: Years Ended December 31:	Traditional			Total
	Primary	Bulk	Other	
2005	\$ 5,112.4	\$ 1,053.1	\$ 11.7	\$ 6,177.4
2006	4,246.8	1,146.6	12.2	5,405.7
2007	7,844.5	724.5	15.2	8,584.4
Nine Months Ended September 30:				
2007	5,199.6	696.3	10.7	5,906.7
2008	4,213.2	.6	11.2	4,225.2

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Quarters Ended September 30:

2007	2,352.5	161.7	3.4	2,517.8
2008	\$ 999.7	\$ -	\$ 4.0	\$ 1,003.8

Premium and Persistency Trends by Type:	Earned Premiums		Persistency	
	Direct	Net	Traditional Primary	Bulk

Years Ended December 31:

2005	\$ 508.0	\$ 429.5	65.5%	59.5%
2006	524.7	444.3	73.1	70.5
2007	612.7	518.2	77.6	73.7

Nine Months Ended September 30:

2007	444.2	377.0	76.6	67.6
2008	526.0	445.2	81.4%	86.3%

Quarters Ended September 30:

2007	157.4	133.9		
2008	\$ 175.3	\$ 148.4		

While there is no consensus in the marketplace as to the precise definition of “sub-prime”, Old Republic generally views loans with Fair, Issac & Company (“FICO”) credit scores below 620, loans underwritten with reduced levels of documentation and loans with loan to value ratios in excess of 95% as having a higher risk of default. Risk in force concentrations by these attributes are disclosed in the following tables for both traditional primary and bulk production.

Premium rates for loans exhibiting greater risk attributes are typically higher in anticipation of potentially greater defaults and claim costs. Additionally, bulk insurance policies, which represent 9.2% of total net risk in force, are frequently subject to deductibles and aggregate stop losses which serve to limit the overall risk on a pool of insured loans. As the decline in the housing markets has accelerated and mortgage lending standards have tightened, rising defaults and the attendant increases in reserves and paid claims on higher risk loans have become more significant drivers of increased claim costs.

Net Risk in Force by Type:	Net Risk in Force			
	Traditional Primary	Bulk	Other	Total
As of December 31:				
2005	\$ 14,711.2	\$ 1,758.8	\$ 586.1	\$ 17,056.2
2006	14,582.1	2,471.1	578.9	17,632.2
2007	18,808.5	2,539.9	511.1	21,859.5
As of September 30:				
2007	17,070.6	2,641.7	507.3	20,219.7
2008	\$ 20,489.5	\$ 2,116.8	\$ 458.8	\$ 23,065.2

Risk in Force Distribution By FICO Scores:	Analysis of Risk in Force			
	FICO less than 620	FICO 620 to 680	FICO Greater than 680	Unscored/Unavailable
Traditional Primary:				
As of December 31:				
2005	8.3%	31.8%	53.1%	6.8%
2006	8.5	32.6	54.6	4.3
2007	8.5	33.6	55.1	2.8
As of September 30:				
2007	8.7	33.7	54.4	3.2
2008	7.2%	31.2%	59.5%	2.1%
Bulk(a):				
As of December 31:				
2005	21.2%	38.7%	38.7%	1.4%
2006	24.1	35.7	39.8	.4
2007	19.4	34.9	45.4	.3
As of September 30:				
2007	19.7	35.1	45.0	.2
2008	18.6%	33.8%	47.4%	.2%

Risk in Force Distribution By Loan to Value ("LTV") Ratio:	LTV			
	less than 85	LTV 85 to 90	LTV 90 to 95	LTV Greater than 95
Traditional Primary:				
As of December 31:				
2005	5.4%	37.7%	39.1%	17.8%

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2006	5.0	37.4	36.0	21.6
2007	4.7	34.4	32.0	28.9
As of September 30:				
2007	4.7	35.2	32.5	27.6
2008	5.2%	35.1%	31.5%	28.2%

Bulk(a):

As of December 31:

2005	57.3%	27.4%	11.6%	3.7%
2006	63.4	23.1	9.0	4.5
2007	62.0	20.9	9.3	7.8

As of September 30:

2007	62.6	20.8	9.2	7.4
2008	63.2%	20.3%	8.7%	7.8%

(a) Bulk pool risk in-force, which represented 44.1% of total bulk risk in-force at September 30, 2008, has been allocated pro-rata based on insurance in-force.

## Risk in Force Distribution By Top Ten States:

	Traditional Primary									
	FL	TX	GA	IL	OH	CA	NJ	VA	NC	PA
As of December 31:										
2005	9.0%	7.1%	6.3%	5.4%	3.7%	3.6%	3.1%	2.8%	4.7%	3.8%
2006	9.0	7.5	5.8	5.4	3.7	3.1	3.1	2.8	4.8	4.0
2007	8.9	7.7	5.3	5.2	3.4	4.5	3.1	2.8	4.5	3.8
As of September 30:										
2007	8.9	7.7	5.4	5.2	3.5	3.6	3.1	2.8	4.6	3.9
2008	8.4%	8.0%	5.2%	5.2%	3.2%	5.4%	3.1%	2.9%	4.4%	3.8%

	Bulk(a)									
	FL	TX	GA	IL	OH	CA	NJ	AZ	CO	NY
As of December 31:										
2005	8.3%	4.5%	3.3%	4.9%	3.6%	19.0%	3.8%	4.0%	2.7%	6.3%
2006	9.4	4.8	3.6	4.5	3.4	17.7	3.2	4.4	2.8	4.6
2007	9.3	4.8	4.2	4.1	3.1	17.5	3.4	4.2	3.0	5.5
As of September 30:										
2007	9.0	4.8	4.2	4.0	3.2	17.4	3.5	4.2	3.0	5.7
2008	9.9%	4.6%	4.0%	4.0%	3.1%	18.2%	3.4%	4.3%	3.0%	5.3%

## Risk in Force Distribution By Level of Documentation:

	Full Docu-mentation	Reduced Docu-mentation
Traditional Primary:		
As of December 31:		
2005	90.6%	9.4%
2006	89.4	10.6
2007	88.0	12.0
As of September 30:		
2007	87.8	12.2
2008	89.6%	10.4%
Bulk (a):		
As of December 31:		
2005	51.9%	48.1%
2006	51.9	48.1
2007	49.6	50.4
As of September 30:		
2007	49.3	50.7
2008	49.3%	50.7%

## Risk in Force By Loan Type:

	Fixed Rate	Adjustable Rate
Traditional Primary:		
As of December 31:		
2005	90.9%	9.1%
2006	92.3	7.7
2007	94.4	5.6
As of September 30:		

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2007	93.6	6.4
2008	95.6%	4.4%
Bulk (a):		
As of December 31:		
2005	64.6%	35.4%
2006	65.7	34.3
2007	70.9	29.1
As of September 30:		
2007	70.7	29.3
2008	73.6%	26.4%

(a) Bulk pool risk in-force, which represented 44.1% of total bulk risk in-force at September 30, 2008, has been allocated pro-rata based on insurance in-force.

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

Title Premium and Fee Production by Source		
	Direct Operations	Independent Title Agents & Other
Years Ended December 31:		
2005	37.1%	62.9%
2006	32.3	67.7
2007	32.1	67.9
Nine Months Ended September 30:		
2007	32.6	67.4
2008	36.4	63.6
Quarters Ended September 30:		
2007	30.6	69.4
2008	37.1%	62.9%

#### Revenues: Net Investment Income

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

Invested Assets at Cost						Market Value	Invested Asset at Market Value
	General	Mortgage	Title	Corporate and Other	Total	Adjust- ment	
As of December 31:							
2006	\$ 5,524.8	\$ 1,571.6	\$ 611.1	\$ 246.6	\$ 7,954.3	\$ 101.8	\$ 8,056.1
2007	5,984.9	1,795.8	606.0	252.9	8,639.7	121.4	8,761.2
As of September 30:							
2007	5,839.7	1,695.3	613.7	259.7	8,408.6	157.6	8,566.2
2008	\$ 5,645.5	\$ 1,983.7	\$ 576.9	\$ 343.5	\$ 8,549.4	\$ (9.7)	\$ 8,539.6

Net Investment Income						Yield at	
	General	Mortgage	Title	Corporate and Other	Total	Original Cost	Market
Years Ended							
December 31:							
2005	\$ 197.0	\$ 70.1	\$ 26.0	\$ 16.9	\$ 310.1	4.51 %	4.40 %
2006	221.5	74.3	26.9	18.7	341.6	4.52	4.47
2007	260.8	79.0	27.3	12.7	379.9	4.58	4.52
Nine Months Ended							
September 30:							
2007	192.8	57.9	20.2	9.2	280.4	4.57	4.50

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2008	189.1	65.0	19.1	9.0	282.3	4.28	4.35
Quarters Ended							
September 30:							
2007	65.3	19.9	6.7	3.0	95.1	4.60	4.54
2008	\$ 61.9	\$ 22.0	\$ 6.2	\$ 3.6	\$ 93.8	4.21 %	4.40 %

Revenues: Net Realized Gains

The Company's investment policies have not been designed to maximize or emphasize the securing of investment gains. Rather, these policies aim to assure a stable source of income from interest and dividends, protection of capital, and the providing of sufficient liquidity to meet insurance underwriting and other obligations as they become payable in the future. Sales of fixed maturity securities arise mostly from scheduled maturities and early calls; for the first nine months of 2008 and 2007, 89.7% and 95.2%, respectively, of all such dispositions resulted from these occurrences. Dispositions of equity securities at a realized gain or loss reflect such factors as ongoing assessments of issuers' business prospects, rotation among industry sectors, and tax planning considerations. Additionally, the amount of net realized investment gains and losses registered in any one accounting period are affected by the aforementioned assessments of securities' values for other-than-temporary impairment. As a result of the interaction of all these factors and considerations, net realized investment gains or losses can vary significantly from period-to-period, and in the Company's view are not indicative of any particular trend or result in the basics of its insurance business.



The following table reflects the composition of net realized investment gains or losses for the periods shown. A significant portion of Old Republic's indexed stock portfolio was sold at a gain during 2007, with proceeds redirected to a more concentrated, select list of common stocks expected to provide greater long-term total returns. Relatively greater realized investment gains in equity securities in 2005 resulted largely from sales of substantial portions of actively managed equity holdings and reinvestment of proceeds in index-style investment portfolios.

	Realized Gains (Losses) on Disposition of Securities			Impairment Losses on Securities			Net realized gains (losses)
	Fixed maturity securities	Equity securities and miscell-aneous investments	Total	Fixed maturity securities	Equity securities and miscell-aneous investments	Total	
Years Ended December 31:							
2005	\$ 4.5	\$ 69.6	\$ 74.1	\$ (2.7)	\$ (6.5)	\$ (9.2)	\$ 64.9
2006	2.0	16.9	19.0	-	-	-	19.0
2007	2.2	68.1	70.3	-	-	-	70.3
Nine Months Ended September 30:							
2007	1.2	19.0	20.3	-	-	-	20.3
2008	4.0	22.0	26.0	(11.5)	(437.3)	(448.9)	(422.8)
Quarters Ended September 30:							
2007	-	3.9	3.9	-	-	-	3.9
2008	\$ 1.3	\$ 17.0	\$ 18.3	\$ (11.5)	\$ -	\$ (11.5)	\$ 6.7

#### Expenses: Benefits and Claims

In order to achieve a necessary matching of premium and fee revenues and expenses, the Company records the benefits, claims and related settlement costs that have been incurred during each accounting period. Total claim costs are affected by the amount of paid claims and the adequacy of reserve estimates established for current and prior years' claim occurrences at each balance sheet date.

The following table shows a breakdown of gross and net of reinsurance claim and loss adjustment expense reserve estimates for major types of insurance coverages as of September 30, 2008 and December 31, 2007:

	Claim and Loss Adjustment Expense Reserves			
	September 30, 2008		December 31, 2007	
	Gross	Net	Gross	Net
Commercial automobile (mostly trucking)	\$ 1,047.9	\$ 861.5	\$ 1,041.6	\$ 845.6
Workers' compensation	2,243.5	1,266.5	2,195.5	1,265.8
General liability	1,196.0	602.9	1,173.2	587.1
Other coverages	724.9	501.3	691.2	476.9
Unallocated loss adjustment expense reserves	148.4	103.0	154.8	104.0
Total general insurance reserves	5,360.9	3,335.4	5,256.5	3,279.7
Mortgage guaranty	1,338.6	1,202.4	645.2	642.9

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Title	270.4	270.4	273.5	273.5
Life and health	29.5	23.8	30.3	24.7
Unallocated loss adjustment expense reserves – other coverages	25.9	25.9	25.4	25.4
Total claim and loss adjustment expense reserves	\$ 7,025.6	\$ 4,858.1	\$ 6,231.1	\$ 4,246.3
Asbestosis and environmental claim reserves included in the above general insurance reserves:				
Amount	\$ 175.6	\$ 147.3	\$ 190.5	\$ 158.1
% of total general insurance reserves	3.3 %	4.4 %	3.6 %	4.8 %

The Company's reserve for loss and loss adjustment expenses represents the accumulation of estimates of ultimate losses, including incurred but not reported losses and loss adjustment expenses. The establishment of claim reserves by the Company's insurance subsidiaries is a reasonably complex and dynamic process influenced by a large variety of factors as further discussed below. Consequently, reserves established are a reflection of the opinions of a large number of persons, of the application and interpretation of historical precedent and trends, of expectations as to future developments, and of management's judgment in interpreting all such factors. At any point in time the Company is

exposed to possibly higher or lower than anticipated claim costs and the resulting changes in estimates are recorded in operations of the periods during which they are made. Increases to prior reserve estimates are often referred to as unfavorable development whereas any changes that decrease previous estimates of the Company's ultimate liability are referred to as favorable development.

#### Overview of Loss Reserving Process

Most of Old Republic's consolidated claim and related expense reserves stem from its general insurance business. At September 30, 2008, such reserves accounted for 76.3% and 68.7% of consolidated gross and net of reinsurance reserves, respectively, while similar reserves at December 31, 2007 represented 84.4% and 77.2% of the respective consolidated amounts.

The Company's reserve setting process reflects the nature of its insurance business and the decentralized basis upon which it is conducted. Old Republic's general insurance operations encompass a large variety of lines or classes of commercial insurance; it has negligible exposure to personal lines such as homeowners or private passenger automobile insurance that exhibit wide diversification of risks, significant frequency of claim occurrences, and high degrees of statistical credibility. Additionally, the Company's insurance subsidiaries do not provide significant amounts of insurance protection for premises; most of its property insurance exposures relate to cargo, incidental property, and insureds' inland marine assets. Consequently, the wide variety of policies issued and commercial insurance customers served require that loss reserves be analyzed and established in the context of the unique or different attributes of each block or class of business produced by the Company. For example, accident liability claims emanating from insured trucking companies or from general aviation customers become known relatively quickly, whereas claims of a general liability nature arising from the building activities of a construction company may emerge over extended periods of time. Similarly, claims filed pursuant to errors and omissions or directors and officers' ("E&O/D&O") liability coverages are usually not prone to immediate evaluation or quantification inasmuch as many such claims may be litigated over several years and their ultimate costs may be affected by the vagaries of judged or jury verdicts. Approximately 86% of the general insurance group's claim reserves stem from liability insurance coverages for commercial customers which typically require more extended periods of investigation and at times protracted litigation before they are finally settled. As a consequence of these and other factors, Old Republic does not utilize a single, overarching loss reserving approach.

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

Aggregate loss reserves consist of liability estimates for claims that have been reported ("case") to the Company's insurance subsidiaries and reserves for claims that have been incurred but not yet reported ("IBNR") or whose ultimate costs may not become fully apparent until a future time. Additionally, the Company establishes unallocated loss adjustment expense reserves for loss settlement costs that are not directly related to individual claims. Such reserves are based on prior years' cost experience and trends, and are intended to cover the unallocated costs of claim departments' administration of case and IBNR claims over time. Long-term, disability-type workers' compensation

reserves are discounted to present value based on interest rates that range from 3.5% to 4.0%.

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

Overall, reserves pertaining to several hundred large individual commercial insurance accounts that exhibit sufficient statistical credibility, and at times may be subject to retrospective premium rating plans or the utilization of varying levels or types of self-insured retentions through captive insurers and similar risk management mechanisms are established on an account by account basis using case reserves and applicable formula-driven methods. Large account reserves are usually set and analyzed for groups of coverages such as workers compensation, commercial auto and general liability that are typically underwritten jointly for many customers. For certain so-called long-tail categories of insurance such as retained or assumed excess liability or excess workers' compensation, officers and directors' liability, and commercial umbrella liability relative to which claim development patterns are particularly long, more volatile, and immature in their early stages of development, the Company judgmentally establishes the most current accident years' loss reserves on the basis of expected loss ratios. Such expected loss ratios typically reflect currently estimated loss ratios from prior accident years, adjusted for the effect of actual and anticipated rate changes, actual and anticipated changes in

coverage, reinsurance, mix of business, and other anticipated changes in external factors such as trends in loss costs or the legal and claims environment. Expected loss ratios are generally used for the two to three most recent accident years depending on the individual class or category of business. As actual claims data emerges in succeeding interim and annual periods, the original accident year loss ratio assumptions are validated or otherwise adjusted sequentially through the application of statistical projection techniques such as the Bornhuetter/Ferguson method which utilizes data from the more mature experience of prior years to arrive at a likely indication of more recent years' loss trends and costs.

Mortgage guaranty insurance loss reserves are based on statistical calculations that take into account the number of reported insured mortgage loan defaults as of each balance sheet date, as well as experience-based estimates of IBNR. Further, such loss reserve estimates also take into account a large number of variables including trends in claim severity, potential salvage recoveries, expected cure rates for reported loan delinquencies at various stages of default, and judgments relative to future employment levels, housing market activity, and mortgage loan interest costs, demand, and extensions.

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

#### Incurred Loss Experience

Management is of the opinion that the Company's overall reserving practices have been consistently applied over many years. For at least the past ten years, previously established aggregate reserves have produced reasonable estimates of the cumulative ultimate net costs of claims incurred. However, there are no guarantees that such outcomes will continue, and accordingly, no representation is made that ultimate net claim and related costs will not develop in future years to be greater or lower than currently established reserve estimates. In management's opinion, however, such potential development is not likely to have a material effect on the Company's consolidated financial position, although it could materially affect its consolidated results of operations for any one annual or interim reporting period. See further discussion in the Company's 2007 Annual Report on Form 10-K, under Item 1A - Risk Factors.

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

	General		Mortgage		Title		Consolidated	
Years Ended December 31:								
2005	66.9	%	37.2	%	6.0	%	43.3	%
2006	65.9		42.8		5.9		45.3	
2007	67.8		118.8		6.6		60.2	
Nine Months Ended September 30:								
2007	66.5		96.4		6.4		55.6	
2008	72.8		192.3		7.0		80.1	
Quarters Ended September 30:								
2007	67.7		161.9		6.8		66.4	
2008	72.5	%	203.1	%	7.0	%	81.8	%

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

	General Insurance Claims Ratios by Type of Coverage					
	Commercial Automobile (mostly trucking)	Workers' Compensation	Financial Indemnity	Inland Marine and Property	General Liability	Other
Years Ended December 31:						
2005	66.9%	78.9%	48.9%	52.1%	97.4%	59.5%
2006	75.4	74.5	40.6	55.0	57.5	55.6
2007	74.0	70.9	69.6	54.9	59.9	55.9
Nine Months Ended September 30:						
2007	73.6	71.0	62.4	55.3	57.2	55.1
2008	74.8	67.4	98.9	62.3	61.1	53.7
Quarters Ended September 30:						
2007	71.0	72.1	70.6	58.9	59.7	54.7
2008	77.3%	63.8%	92.5%	72.8%	53.4%	52.6%

The general insurance portion of the claims ratio reflects reasonably consistent overall trends through December 31, 2007. To a large extent this major cost factor reflects pricing and risk selection improvements that have been applied

since 2001, together with elements of reduced loss severity and frequency. The higher claims ratio for financial indemnity coverages in 2007 and both 2008 periods was driven principally by greater claim frequencies experienced in Old Republic's consumer credit indemnity coverage. During the three most recent calendar years, the general insurance group experienced favorable development of prior year loss reserves primarily due to the commercial automobile and the E&O/D&O (financial indemnity) lines of business; these were partially offset by unfavorable development in excess workers compensation coverages, and for ongoing development of asbestos and environmental ("A&E") exposures (general liability). Unfavorable developments attributable to A&E claim reserves are due to periodic re-evaluations of such reserves as well as reclassifications of other coverages' reserves, typically workers compensation, deemed assignable to A&E types of losses.

Except for a small portion that emanates from ongoing primary insurance operations, a large majority of the A&E claim reserves posted by Old Republic stem mainly from its participations in assumed reinsurance treaties and insurance pools which were discontinued fifteen or more years ago and have since been in run-off status. With respect to the primary portion of gross A&E reserves, Old Republic administers the related claims through its claims personnel as well as outside attorneys, and posted reserves reflect its best estimates of ultimate claim costs. Claims administration for the assumed portion of the Company's A&E exposures is handled by the claims departments of unrelated primary or ceding reinsurance companies. While the Company performs periodic reviews of certain claim files managed by third parties, the overall A&E reserves it establishes respond to the paid claim and case reserve activity reported to the Company as well as available industry statistical data such as so-called survival ratios. Such ratios represent the number of years' average paid losses for the three or five most recent calendar years that are encompassed by an insurer's A&E reserve level at any point in time. According to this simplistic appraisal of an insurer's A&E loss reserve level, Old Republic's average five year survival ratios stood at 7.5 years (gross) and 9.9 years (net of reinsurance) as of September 30, 2008 and 7.7 years (gross) and 10.7 years (net of reinsurance) as of December 31, 2007. Fluctuations in this ratio between years can be caused by the inconsistent pay out patterns associated with these types of claims. Incurred net losses for A&E claims have averaged 2.8% of general insurance group net incurred losses for the five years ended December 31, 2007.

The mortgage guaranty claims ratios have continued to rise in recent periods, principally reflecting higher paid losses, as well as expectations of greater claim frequency and severity. The most recent quarterly and full year 2007 claim ratios comparisons reflect a significant increase due primarily to increasing loss severity on reported delinquencies as well as to higher expected claim frequencies and the resulting impact on claims reserves. Claim severity has trended upward primarily due to loans with larger unpaid principal balances and corresponding risk moving into default along with a lower level of mitigation potential due to housing depreciation trends. Expectations of greater claim frequency are impacted by several factors, including the number of loans entering into default, the outlook for the housing market, tightening lending standards which effect borrowers' ability to refinance troubled loans, the aging of the bulk business, and the state of the economy overall, especially employment levels.

Average mortgage guaranty paid claims, and certain delinquency ratio data as of the end of the periods shown are listed below:

	Average Paid Claim Amount (a)		Delinquency Ratio	
	Traditional Primary	Bulk	Traditional Primary	Bulk
Years Ended December 31:				
2005	\$ 24,255	\$ 20,639	4.67 %	3.67%
2006	25,989	21,846	4.41	3.29
2007	32,214	34,951	5.47	6.85
Nine Months Ended September 30:				
2007	29,877	28,658	4.75	4.84

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2008	41,401	56,047	8.36	%	13.80%
Quarters Ended September 30:					
2007	31,247	30,794			
2008	\$ 44,649	\$ 61,023			

(a) Amounts are in whole dollars.



## Traditional Primary Delinquency Ratios for Top Ten States (b):

	FL	TX	GA	IL	OH	CA	NJ	VA	NC	PA
As of December 31:										
2005	3.1%	5.7%	5.9%	4.2%	8.3%	1.8%	4.1%	2.2%	4.9%	4.7%
2006	2.7	4.5	6.1	4.5	7.8	2.9	4.1	2.6	4.6	4.8
2007	7.7	4.5	7.2	5.4	8.1	6.7	5.4	4.1	4.8	5.2
As of September 30:										
2007	5.3	4.1	6.5	4.8	7.6	4.9	4.5	3.3	4.3	4.8
2008	17.1%	5.7%	9.2%	8.5%	9.5%	15.9%	9.1%	6.5%	6.0%	6.6%

## Bulk Delinquency Ratios for Top Ten States (b):

	FL	TX	GA	IL	OH	CA	NJ	NY	CO	AZ
As of December 31:										
2005	1.9%	5.5%	5.8%	3.0%	8.4%	.9%	3.7%	4.3%	3.0%	.9%
2006	1.6	4.0	4.4	4.2	9.3	1.6	3.5	4.4	3.3	1.0
2007	7.8	5.4	7.3	8.6	10.6	7.0	6.6	6.6	5.8	5.1
As of September 30:										
2007	4.5	4.5	5.8	6.1	8.7	4.3	4.9	5.2	4.4	2.8
2008	21.4%	8.0%	13.3%	15.7%	15.0%	17.6%	12.9%	11.5%	8.0%	13.9%

## Total Delinquency Ratios for Top Ten States (includes "other" business) (b):

	FL	TX	GA	IL	OH	CA	NJ	NY	NC	PA
As of December 31:										
2005	2.4%	5.3%	5.3%	2.8%	7.5%	.9%	3.7%	3.7%	3.8%	4.3%
2006	2.0	4.1	5.2	3.1	7.3	1.4	3.6	4.0	3.3	4.3
2007	6.9	4.5	6.7	5.0	8.0	5.5	5.5	5.4	4.1	5.1
As of September 30:										
2007	4.5	4.0	5.9	4.2	7.4	3.5	4.5	4.6	3.5	4.6
2008	16.7%	5.8%	9.3%	8.2%	9.8%	13.6%	9.7%	8.8%	5.4%	6.9%

(b) As determined by risk in force as of September 30, 2008, these 10 states represent 49.5%, 59.8%, and 50.0%, of traditional primary, bulk, and total risk in force, respectively.

The title insurance loss ratios remain in the low single digits due to a continuation of favorable trends in claims frequency and severity for business underwritten since 1992 in particular. Though still reasonably contained, the increases in claim costs in 2007 and for the first nine months of 2008 are reflective of the continuing downturn in the housing and related mortgage lending industries.

## Reinsurance Programs

To maintain premium production within its capacity and limit maximum losses and risks for which it might become liable under its policies, Old Republic may cede a portion or all of its premiums and liabilities on certain classes of insurance, individual policies, or blocks of business to other insurers and reinsurers. Further discussion of the Company's reinsurance programs can be found in Part 1 of the Company's 2007 Annual Report on Form 10-K.

#### Expenses: Underwriting, Acquisition and Other Expenses

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

	General		Mortgage		Title		Consolidated	
Years Ended December 31:								
2005	24.6	%	22.4	%	88.2	%	45.2	%
2006	24.4		22.5		93.6		44.7	
2007	24.1		17.7		98.1		41.3	
Nine Months Ended September 30:								
2007	24.5		18.4		96.3		41.7	
2008	24.2		15.8		102.0		39.0	
Quarters Ended September 30:								
2007	23.0		15.0		97.5		40.2	
2008	23.8	%	14.8	%	102.2	%	38.8	%

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

## Expenses: Total

The composite ratios of the above net claims, benefits and underwriting expenses that reflect the sum total of all the factors discussed herein were as follows:

	General		Mortgage		Title		Consolidated	
Years Ended December 31:								
2005	91.5	%	59.6	%	94.2	%	88.5	%
2006	90.3		65.3		99.5		90.0	
2007	91.9		136.5		104.7		101.5	
Nine Months Ended September 30:								
2007	91.0		114.8		102.7		97.3	
2008	97.0		208.1		109.0		119.1	
Quarters Ended September 30:								
2007	90.7		176.9		104.3		106.6	
2008	96.3	%	217.9	%	109.2	%	120.6	%

## Expenses: Income Taxes

The effective consolidated income tax rates on pretax losses were 34.6% and 31.6% in the third quarter and first nine months of 2008, compared to effective tax rates on pretax income of 16.6% and 29.6% in the third quarter and first nine months of 2007. The rates reflect primarily the varying proportions of pretax operating income derived from partially tax-sheltered investment income (principally state and municipal tax-exempt interest) on the one hand, and the combination of fully taxable investment income, realized investment gains or losses, and underwriting and service income, on the other hand.

## OTHER INFORMATION

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

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

Some of the oral or written statements made in the Company’s reports, press releases, and conference calls following earnings releases, can constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Of necessity, any such forward-looking statements involve assumptions, uncertainties, and risks that may affect the Company’s future performance. With regard to Old Republic’s General Insurance segment, its results can be affected, in particular, by the level of market competition, which is typically a function of available capital and expected returns on such capital among competitors, the levels of interest and inflation rates, and periodic changes in claim frequency and severity patterns caused by natural disasters, weather conditions, accidents, illnesses, work-related injuries, and unanticipated external events. Mortgage Guaranty and Title Insurance results can be affected by similar factors, and by changes in national and regional housing demand and values, the availability and cost of mortgage loans, employment trends, and default rates on mortgage loans. Mortgage Guaranty results, in particular, may also be affected by various risk-sharing arrangements with business producers, as well as the risk

management and pricing policies of government-sponsored enterprises. Life and health insurance earnings can be affected by the levels of employment and consumer spending, variations in mortality and health trends, and changes in policy lapsation rates. At the parent holding company level, operating earnings or losses are generally reflective of the amount of debt outstanding and its cost, interest income on temporary holdings of short-term investments, and period-to-period variations in the costs of administering the Company's widespread operations.

A more detailed listing and discussion of the risks and other factors which affect the Company's risk-taking insurance business are included in Part I, Item 1A - Risk Factors, of the Company's 2007 Form 10-K annual report to the Securities and Exchange Commission, which Item is specifically incorporated herein by reference.

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

OLD REPUBLIC INTERNATIONAL CORPORATION

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Item 3 - Quantitative and Qualitative Disclosure About Market Risk

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

Old Republic's market risk exposures at September 30, 2008, have not materially changed from those identified in the Company's 2007 Annual Report on Form 10-K.

Item 4 - Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's principal executive officer and its principal financial officer have evaluated the Company's disclosure controls and procedures as of the end of the period covered by this quarterly report. Based upon their evaluation, the principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective for the above referenced evaluation period.

Changes in Internal Control

During the three month period ended September 30, 2008, there were no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



OLD REPUBLIC INTERNATIONAL CORPORATION  
FORM 10-Q  
PART II – OTHER INFORMATION

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Item 1 – Legal Proceedings

The information contained in Note 6 “Commitments and Contingent Liabilities” of the Notes to Consolidated Financial Statements filed as Part 1 of this Quarterly Report on Form 10-Q is incorporated herein by reference.

Item 1A – Risk Factors

There have been no material changes with respect to the risk factors disclosed in the Company’s 2007 Annual Report on Form 10-K.

Item 6 – Exhibits

(a) Exhibits

31.1 Certification by Aldo C. Zucaro, Chief Executive Officer, pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification by Karl W. Mueller, Chief Financial Officer, pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification by Aldo C. Zucaro, Chief Executive Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification by Karl W. Mueller, Chief Financial Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Old Republic International Corporation  
(Registrant)

Date: October 31, 2008

/s/ Karl W. Mueller  
Karl W. Mueller  
Senior Vice President,  
Chief Financial Officer, and  
Principal Accounting Officer



EXHIBIT INDEX

Exhibit No.	Description
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